

Public Choice 2007

First World Meeting of the Public Choice Society

Amsterdam, March 29 - April 1, 2007

Reforming the Public Sector:

A Perspective from Service Management

(February 2007; preliminary version)

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Abstract

Reforms of the public sector emphasise the change from input to output orientation. By this, the service character of public offerings is not paid attention sufficiently. We exemplify this by referring to the “product catalogue” as one instrument of New Public Management (NPM). The paper argues to give the service character of public offerings a stronger attention, and in particular, to include research from service management. We examine the service profit chain, service as process, perceived quality and customer satisfaction and service marketing. It is argued that indeed service management has something to offer for the provision of public services.

Keywords: Local Government, Public Management, Services

JEL classification: H4, H72, H83

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1 Introduction

There has been a growing interest in the service sector in recent years. The basic reason for this is simply the growing evidence that services are becoming more and more the centre of economic activities in our post-industrial service economy. So economics, but also business administration, is trying to come to grips with services. While services played only a minor figure in economics, but were at least given some room (in spite of the so to say “unhappy start” being discounted as unproductive by Adam Smith in the Wealth of Nations), they were almost neglected in business administration. But in the last 20 to 30 years this has changed. The role model of material goods production has considerably lost its lead. Concepts of management are gradually shifting to a more service-oriented perspective of business administration. Interestingly enough, this development did not take its starting point from a look on the production side and the differences there to be found between manufacturing and service provision, but was initiated by marketing researchers. Now some are arguing again that the accepted differentiation of material goods and services is no longer useful as line of demarcation for the territory of service management. While some question the general approach of distinguishing between material goods and services others come to the conclusion that a basic service (management) orientation has to be the foundation of any modern management approach.

In view of this, public management is lagging behind. The development in public management, especially as in blends of the (by now not so new) New Public Management (NPM) is characterized by transferring more or less traditional concepts from production orientated management theories to public *service* management. The manufacturing firm is somehow still serving as a standard. Aspects of service management are not widely taken in to consideration. It is true, public service providers are calling themselves service-oriented or customer-orientated, but the concepts of service management, belonging to these propositions, have been neglected up to now mostly. In the following we argue that the actual discussion about the basis of service management offers a clue for a more thorough application of service management as cornerstone of public management in particular and the study of local government in general. Furthermore, it is shown that some of the instruments of the NPM (or NSM = “New Steering Model” the German variant of it) have moved the reforms undertaken partly in directions that are quite inappropriate for service provision.

The structure of the paper is as follows: In Section 2 we give some characterizations of services in general and public services in particular. Section 3 will then scrutinize one special instrument of reform, namely the product catalogue. In Section 4 we introduce the service profit chain and argue for its usability as starting point not only for service management but also for public management. Section 5 then gives some perspectives on public management from service management. Finally, Section 6 contains conclusions about our topic, i.e. reforms of the public sector and what a service management perspective offers.

2 The Public Sector as Service Provider

2.1 *On the Characterization of Services*

There is no generally agreed definition of services. A common approach, especially in the American marketing literature, distinguishes services from (material) goods with the help of four basic characteristics (cf. Lovelock/Gummesson 2004; Vargo/Lush 2004a, 2004b). These are:

- a) Intangibility (or Immateriality)
- b) Heterogeneity
- c) Inseparability (or simultaneity) of Production and Consumption
- d) Perishability

All of these characteristics, in particular a), c) and d), have their roots in the works of classical economists (cf. Hill 1999). They were introduced to service management, or more precise to service marketing, in order to appraise the peculiarities of “services” as an object of marketing and to develop a conception of marketing that takes account of these peculiarities (cf. Shostack 1977). From there, they reached a more general canonical status for service management as a whole. This (relative) consensus about the demarcation of services has been questioned in recent times by some researchers on service marketing. For example, Vargo/Lush (2004b) argue that this conventionalist approach rests too strongly on the supposed idea of separating goods and services. That might have been a right starting point at the time these ideas were expressed first, but now there is an development to a “new dominant logic for marketing, one in which service provision rather than goods is fundamental to economic exchange” (Vargo/Lush 2004b, p. 1). Material goods are in this respect just a special way of distributing services. This does not change the fact that the basic offering is an offering of *services*.

The value of this offering depends on the customer and on the use the customer makes of the offering. The value creation is attached to the act of using the offering. Consequently, the service perspective is always customer-orientated and always customer-relationship orientated.

With this emphasis on a customer integrating view, Vargo and Lush are in line with the so called Nordic School of service management. Grönroos, one of its most outstanding representatives, lists three items for characterising services:

- “1. Services are processes consisting of activities or a series of activities rather than things.
2. Services are at least to some extent produced and consumed simultaneously.
3. The customer participates in the service production process at least to some extent.” (Grönroos 2000, p. 47)

Central to his approach of defining services is the emphasis on processes and on integrating the customer as an active part of production and consumption. This is further developed in Grönroos (2005, p. 11): “The logic of service is to support customer’s processes so that value for the customers is created in those processes. Consequently, services can be defined as processes where a bundle of resources are integrated to support customers processes’ in order to enable value creation in those processes.”

2.2 *On the Service Character of Local Public Offerings*

As least as wide as the range of what we subsume under the heading of service is the range of public offerings. Classifications for defining the activities of government are therefore comparably diversified. Roughly three branches of economic activities by government can be distinguished:

- core public services (central and local administration, health, education etc.)
- public utilities (electric, gas, water, transports etc.)

- public enterprises (banks, insurance companies etc.)

With respect to the opposition of market versus non-market organization of provision the branch of the core public services is in most countries counted as non-market provision. Through deregulation and privatization the other two branches have been shifted in many countries more or less to the side of “normal” market provision.

A further distinction, relating mainly to the core public services, is the distinction of different levels of government. In general there are three levels distinguished: national or federal level (Bund), regional or state level (Länder) and local level. Depending on the political system and patterns of historic development there are many differences to be found in how the interaction of these levels is organized and how the responsibilities for undertaking service provisions are distributed. Characteristic of the local level is the close contact between government and citizen. The local level in many ways acts as an interface between both sides. Consequently, the connection between service provision and customer/citizen is particularly pronounced at the local level. In Germany the local level is divided in counties (Kreise) and municipalities (Kommunen, Städte).

Certainly, the aforementioned service characteristics a) to d) will be met by most of the core public offerings, especially when considering offerings at the local level. So it is of no surprise that public offerings are in general interpreted as services. Following this, public institutions are increasingly looking at themselves as service providers, at least verbally so.

Of special importance in this respect are activities to describe public services in the form of a complete product catalogue or product book (“Produktkatalog”, “Produktbuch”). This catalogue lists everything what the institution has to offer be it to external or internal customers. For many municipalities and counties in Germany the

work on these product catalogues was the first step in reforming local government in line with the ideas around the New Public Management (NPM). In particular, the product catalogue is a central building block and cornerstone of the “New Steering Model” (NSM) for the reform of the public sector. The NSM can be seen as a German variant of the bundle of reform tools that are elsewhere referred to as NPM (cf. Reichardt 2003). The NSM was mainly developed by the German “Kommunale Gemeinschaftsstelle” (KGSt), an association of municipalities and counties founded in 1949 with the aim to facilitate the modernization of local government. It works as a kind of think tank for its members.

At the heart of NPM lies the transfer of modern management techniques from private market to public sector (cf. Hood 1991). Underlying this transfer is the idea of putting the organizational forms of market and non-market provision, mostly seen as opposites, in closer contact. Starting point for the transfer of modern management techniques is a strict orientation on the results of activities, i.e. on the output. So the description of output connected with some indicators measuring it can be seen as a prerequisite and as the object of steering in the public sector.

3 From input orientation to a joint look on inputs and outputs

The shift from input to output is a well-known feature of public sector reforms all over the world. In Germany this movement started not from the top levels of government but from the local level more or less like a grassroots movement.¹ The

¹ This is quite different from the much earlier beginnings in Great Britain that relied strongly on central government. Cf. Reichardt (2003) for an overview of local government reforms in Germany. A link

common structure of a product catalogue in Germany consists of a four level “product pyramid”. Having, at the top, a handful of product areas (“Produktbereiche”), each key area contains then at the next level some product groups (“Produktgruppen”). Beneath this are the products and at the bottom of the pyramid are the services rendered (“Leistungen”). The product catalogue (and the work preparing it) serves at first hand the goal of having a complete overview about what the municipality or the county is actually “offering”. In this way, and often for the first time, local government gets a list of own offerings in a systematic and unified mode, containing information about goals, responsible employees, performance indicators, planned activities etc. Beside this, the catalogue is seen as an instrument for different goals. In general efficiency and effectiveness should be increased. Because of the severe financial restrictions of local governments a contribution to budgetary control was hoped for. In this context, product catalogues were seen as instrument for an output orientated steering and for building up a cost accounting system throughout the administration. Not only an ex-post accounting of cost seemed to be urgent, but also a system of ex ante cost planning with the possibility of comparing planned and realized cost figures.

The results of the reform endeavours up to now are not easily figured out. Because of the very decentralized way these reforms were undertaken in Germany, there is now a very scattered field of reform steps taken. At the local level, and also for some major cities, there exist often quite elaborate compilations of descriptions of products. Catalogues with up to 250 products that break up in much more services are not seldom. This is then the basis for erecting a system of cost accounting on top of it. Often, this system displays complex methods for the allocation of overhead costs on the products

between British and German reform movements was established through the Netherlands, in particular with the so called Tilburg Model (cf. Hendriks/Tops 2003).

or services as cost units. Detailed mark-ups are calculated in order to include the “caused” expenses on employees in the total costs of products or services. The application of cost accounting on an ex ante basis is used very rarely; if cost-accounting is used at all, then mostly for calculation of costs ex post.

The product catalogues, and the works in preparing them, show a strong inside directed attitude of looking at local government. One reason is the strong emphasis on the use of internal products and services for representing intra-organizational exchange relations. A special role have inter communal comparisons. They are strongly favoured by the KGSt that established the so called “IKO-Netz”. This includes also a ready to use electronic database to compare figures across partners of the net in order to facilitate inter communal comparisons. The service character of public “products” plays no prominent role in the product catalogues. Often organizational departments are treated directly as products, for example a kindergarten or a school. But sometimes an effort is visible to include all offerings in a more service-orientated way, for example treating not the kindergarten but the service it offers as an entry in the catalogue. The service character is also vivid, when it comes as part of the description of products to fix some quality standards and give some indicators for measuring the quality of performance. But this happens up to now only in a very rudimentary way.

It is remarkable that in Germany, with its Prussian tradition of a strongly legal form of government in general and the relation of government to citizen in particular, the idea of “products” was so eagerly (and voluntarily) accepted. Before, the legally correct execution of administrative acts used to be the only focus. The terms “product” and “customer” are quite separate from this logic. Maybe it can be counted as a sign of overwhelming dissatisfaction with the given system that this “strange” idea of products

has won such big influence so quickly, and that “the basic doctrine of NSM in fact disseminated like a bushfire“ (Reichardt 2003, p. 349).

The enthusiasm of the first phase of implementation has by now changed to a more sceptical account of the achievements. Against the sometimes heavy costs of building up and maintaining the product catalogue and connecting it with a cost accounting system, the results seem quite modest and without any direct short term profit. There is a gain of transparency inside the administration. A new language is established, a language which may allow some further changes in the future. But especially the expectation could not be proved that with the help of a cost accounting system based on products as cost units there will be some real cost cuttings.²

The reasons for this are manifold. One point is that with a considerable effort costs of public services are calculated that are of limited relevance for steering. What is the use of knowing for example that the approval of a building permit costs about € 400? While for a market driven enterprise these figures have relevance in relation to market data about prices and quantities and are used to calculate profits, a municipality cannot use the cost figures in this way. Furthermore, the feedback of the market gives an enterprise also some indirect information about customer satisfaction, innovative products etc. All this information is missing for the municipality. Because of this, the cost data lack its ordinary usefulness. “Which social worker, or which policeman wants to see his efforts just recognized in costs and quantities, and not in quality and outcome”, asks Adamschick (2000, 352) rightly. So it is important to get more information on different routes.

² For a more thorough account of the status of reforms in Germany at the local level see Reichardt (2003).

At this point of argument the approach of steering with respect to output does not only lead to a broadening of the measurement of output dimensions, but also to an integration of a wider set of results of public activities, meaning the impact and eventually outcome of public activities.³ The aim of steering with recourse to output faces the problem that the legislation is in many cases not so much interested in actual output result, like the ones described as products, but aims more “further down the road” to some supposed outcome. An outcome, that is somehow linked with own output, but is not its direct result.

Take for example juvenile delinquency:

- Public offering might be the expansion of cultural offerings for this group.
- Output is measured for example by the number of participants.
- Wanted outcome is measured by the reduction of the crime rate of persons under 16 in a specified time horizon.

One problem relates to the question how to measure the outcome properly. The other well-known and more difficult question arises when one asks how the outcome can be traced back in a causal manner to public activities. Because outcome is by definition the result of a complex interplay of different factors, only partly under control of government, this is only partly possible. But not enough with this, it is not only broadening output, not only widening output to outcome, the next problem that is regularly put forward is the missing of a unified communal goal. Meaning that in

³ Accordingly the KGSt renewed its steering model NSM. Reichard (2003, p. 358) speaks of a change from NSM 1.0 to a „more comprehensive, less technocratic second generation of NSM (,NSM 2.0)‘.“ This kind of reformulation or shift can be found throughout the “world of NPM”. For example Norman (2004, p. 441) states for New Zealand: „Concern at the goal displacing effects of outputs has prompted a significant shift in the planning system towards emphasizing ‘outcomes’, statements of broader political and social purposes.“

contrast to market enterprises there exists no overruling and “simple goal” like profit maximization. Instead of this, there is at best a multidimensional goal, the content of which is unclear the moment one starts pressing to make phrases like “common good” more concrete.

But this argument about the comparable “simple goals” of business is not really in line with all the discussions of the role of visions and mission statements as important part of the strategic management of market enterprises. If things would be as easy as critics of the applicability of management tools believe it to be, it would be hard to explain, why enterprises make efforts to state their missions. And secondly, contrary to being simple about profits, these mission statements reveal an interest in multidimensional goal setting. They try to get it right for each stakeholder (employee, customer, shareholder, general public) despite controversial values. In this respect they are quite similar to mission statements of public institutions (if any exist at all). Firms act in complex strategic settings and have to manage multidimensional goals. So the differences are not so much the goal setting as such, but the restrictions that have to be observed. In this way “profit” offers firms an easy first hand “test” about the success of its strategy implementation and, more important, of the long run ability to survive in business.

One can argue that exactly this test does not exist in the case of local public services. Contrary to firms, there is no possibility for insolvency for government. But even here one has to remark that in case of long running and growing deficits the existence of the public institution as a self-governing and autonomous unit is eroding. So even in this respect there are not that many great differences as is often argued. This is also shown by the actual plans, for example in Germany, to install a new system of financial accounting for the public sector, one that breaks with the old cameralist system

of simple cash accounting and instead changes to a system of accrual accounting. This new system NKR (Neues Kommunales Rechnungswesen) or NKF (Neues Kommunales Finanzmanagement) is certainly not a simple transfer of the standard business accounting to the public sector. There will be considerable amendments to adjust for conditions of the public sector, but again there will be one more aspect of similarities between both. The change to a system of accrual accounting is one more step to close the gap between management styles in the private and in the public sector (cf. Chan 2003).

4 The Service Profit Chain

Explicitly or implicitly many works in the field of service management have the so called service profit chain (SPC) as a background. This simple model of a value enhancing chain has been particularly popularized by Heskett/Sasser/Schlesinger (1997). Fig. 1 shows the graphical representation of this model.

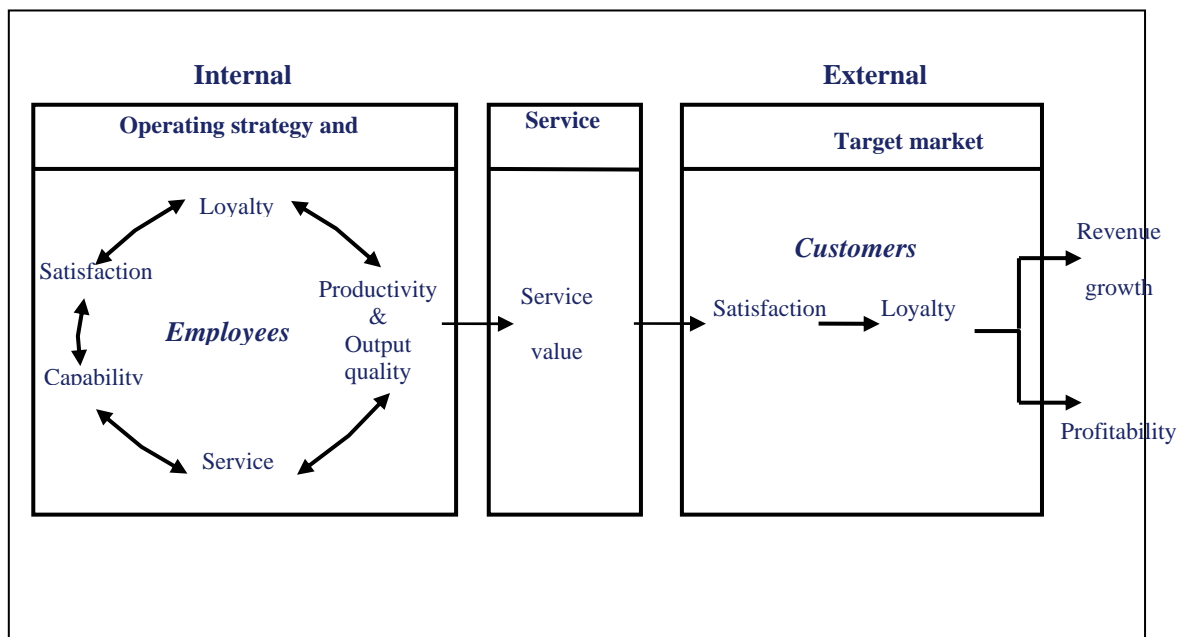


Figure 1: Service Profit Chain, Heskett/Sasser/Schlesinger (1997, p. 19)

The chain runs from service quality to customer satisfaction, customer loyalty and eventually to some basic financial success indicators. Of considerable importance is the significance that is laid on the employees. Satisfaction of employees is seen as a prerequisite and amplifier of customer satisfaction (this is called the “satisfaction mirror”).

The exact nature and order of the links in this chain are naturally a much debated topic. But similar representations are abundant in the service management literature, cf. for example Rust/Zahorik/Keiningham (1995, p. 60), Zeithaml (2000, p. 74). Effort is mostly spent on research about the relationship between the constructs “service quality”, “customer satisfaction”, “customer loyalty” and the actual behaviour or conduct of customers. Fig. 2 shows a general approach taken by Brady/Cronin (2001a).

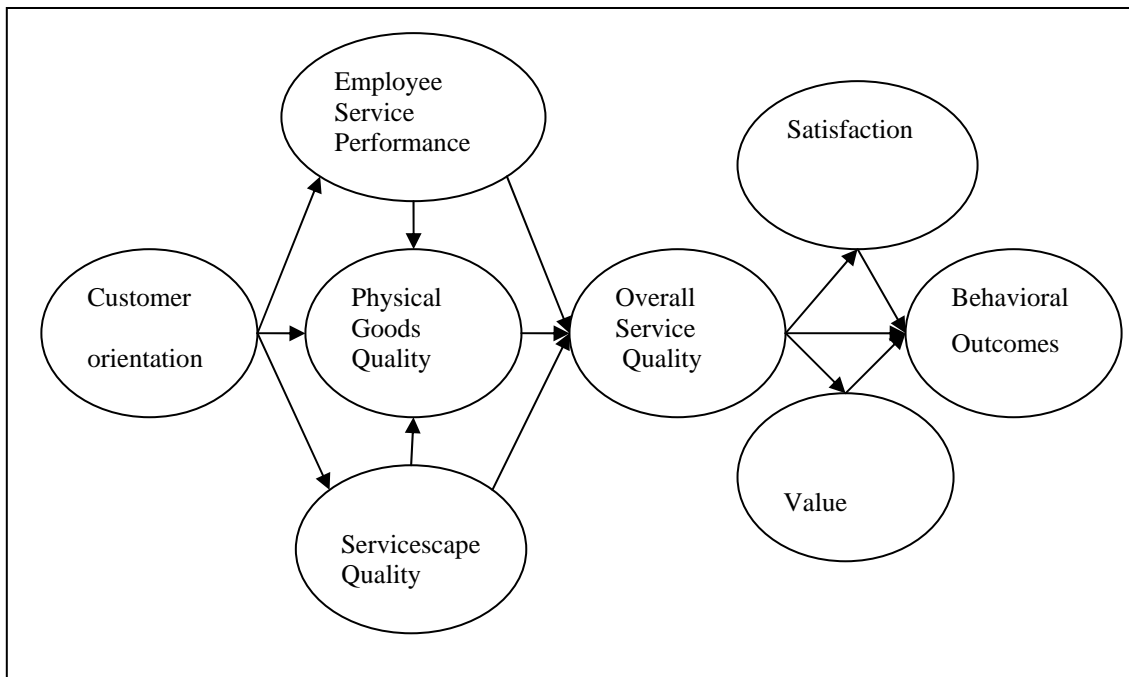


Figure 2: Research Model after Brady/Cronin (2001a, p. 242)

Two general positions are held with respect to these kinds of models. First, the customer perception of quality has to be split up in different quality dimensions, whereby the

number and kind of dimensions differ across the approaches.⁴ Second, it is supposed that service quality is an antecedent to customer satisfaction, and that the latter works as a kind of mediator between quality and loyalty (cf. Caruana 2002). While perceived quality is seen as a more detached attitude of the customer, satisfaction is held to be an affective and emotive construct and therefore more dependent on transaction-specific experiences.

Let us go back to the SPC of fig. 1. If we want to make this model transferable to the public sector, then we face again the problem of missing or incomplete markets. Services are delivered free of charge, or the delivery takes place in a monopolistic setting, where the customer/citizen has only limited alternatives to choose from. But as we tried to argue before, this objection is not really at the heart of the matter. Firms are engaged in operative management tasks that try to tackle a multitude of short and long-term goals. Often these are in a fuzzy causal relationship. The “Research Model” of fig. 2 is an example of this. It shows what constructs are held important and which relations are scrutinized in service management. A transfer of these concepts and approaches to public management is possible and actually in some reform projects already on its way. As an example take Århus County in Denmark. “Århus Amt” has won the 2004 Carl Bertelsmann Prize “Efficiency and Progress in the Public Sector: Organizational Culture and Performance Measurement”, a competition of reform projects in the public sector. The organizational model shown in fig. 3 clearly resembles the basic model of the SPC. Now it is “reputation” that has to fulfil the task of being the compass for steering. “Reputation”, so to speak, replaces the role of revenue and profit. In this form this is

⁴ A famous first approach on this is the SERVQUAL-Model, of Parasuraman/Zeithaml/Berry (1988) that argues for five basic dimensions that should be applicable to any service. Brady/Cronin (2001b) compare different approaches.

certainly debatable. But measuring reputation through questionnaires, focus group interviews and the like should play at least an equally important role as in service firms which compete on markets.

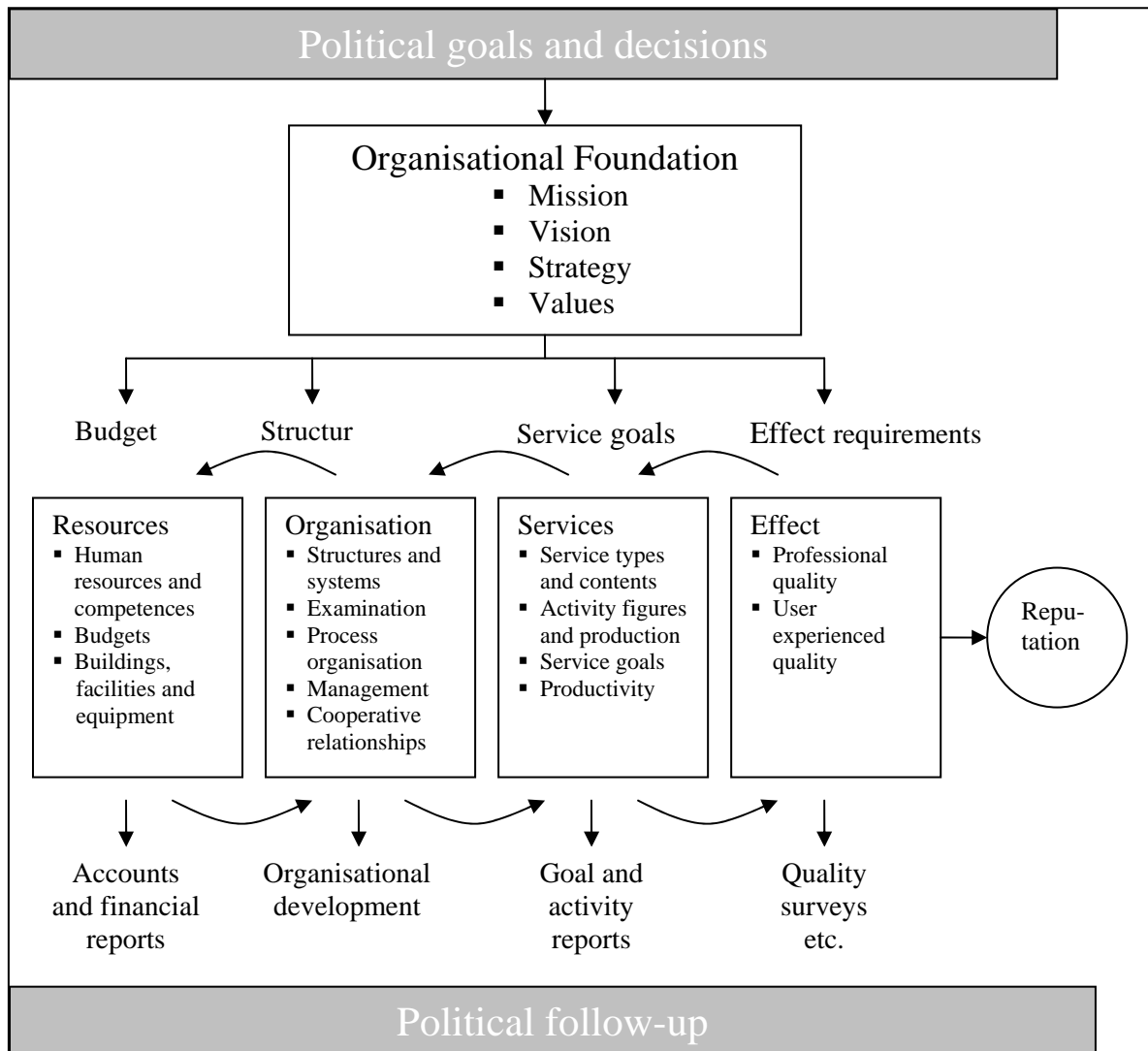


Figure 3: Model Århus County after Bertelsmann Foundation (2004, p. 4)

To be able to use a SPC as a basis of the service management, it is necessary to measure the central reference variables of the model permanently. This applies, whether we care for public or private service provision. There exists a great variety with regard to the indicators that can be used in such a setting. It is a task of the management to design and implement a suitable system for the services in question. The choice of

indicators presupposes a specification of basic aims. In the context of the public sector these aims are expressions of political will. But also in this area targets exist that can be measured by indicators. The targets can be assigned to different aim areas; this is quite similar to the popular concept of the balanced scorecard (BSC) introduced by Kaplan and Norton. So for example in Aarhus county six main indicators focus on the areas of customer satisfaction, compliance with fixed standards in the customer encounter, fulfilment of service aims, productivity, employee satisfaction and budget compliance. An increasing importance is attached to indicator systems that try to measure the local quality of life (or its change) in a comprehensive way. An example for this is the national "Kompass project" in Germany, supported by the Bertelsmann foundation. The following five aim areas are listed in this project and made operational by indicators: "Community Building and City Identity", "Local Economy and Employment", "Social Cohesion and Culture", "Education" and "Environment". The transition from an output orientation to a more comprehensive *outcome* orientation becomes here rather clear. It is a critical point that with this extended position the own responsibilities and steering capabilities of government are reduced.

5 Service Concepts for Public Management

5.1 Services as Processes

It is the basic conviction of modern service management that the service process is decisive for success. The process is decisive because the customer is already integrated here. There is no output which is "delivered" to a customer, but the customer is part of the production and the supplier is involved in consumption. This is the meaning of

being a service provider. From this perspective the emphasis on the output orientation in the context of NPM reform efforts can only be accepted as a first step. There is the danger that one adheres too much to a finally out-dated production idea. For example, Hood (1991) distinguishes three groups of basic administrative values in his much quoted early attempt of analyzing the ingredients of NPM. Hood classes NPM with the “sigma type values”, where the “control emphasis” is on output. This is distinguished from the “theta-type” that accentuates processes where “‘getting the job done’ in terms of aggregate quantities is likely to be supplemented by concerns about how the job is done” (Hood 1991, p.13). From the view of *service management* this is less an expression of a certain management style but simple an expression of what public management is about, namely dealing with the management of *services*.

In considering the reform element “product catalogue” spread particularly in Germany it is recognizable that the original aspect of the process character of service has not been taken up sufficiently. For example, in employee trainings for the preparation of product catalogues it was often “output” that was emphasized not the aspect of integration of the customer/citizen into the service provision. The knowledge of the employees about the sequences and the problems of “service encounters”, a central factor for the quality perceptions of customers, was not used sufficiently, although it was already *available*. Correspondingly, tools like service blueprints etc. that are build explicitly on the actual process of service provision were only used rarely in the context of service design and the measuring of service quality. A notable exception to this verdict is found in the rise of one-stop-offices (“Bürgerbüros”) in many German municipalities.

5.2 *Service Marketing*

As already mentioned in section 2.1, marketing research has to be seen as a driving force for the development of service management. At first, a basic objection to the use of marketing for public management seems obvious. Marketing refers to the exchange process through markets, but these are only of limited relevance for public task fulfilment. The customer/citizen is depending on certain services or legally forced to “demand” them. Alternative solutions by other suppliers are only occasionally at hand. Often there is no bilateral exchange of goods against money. Following this line of argument Graham (1994, p. 373) sceptically states:

“Perhaps marketing is proving difficult to transfer to the public sector because that sector does not generally operate in the environment of an exchange economy which is where marketing was designed and developed to be effective.”

But the positive voices outweigh the negative with regard to the applicability of marketing instruments in the public sector:

“A broad-based debate on marketing in the public sector is ongoing among observers and analysts [...]. The dominant focus is on the lessons to be drawn from private sector models. The resultant paradigm shift has been typified by the demise of the venerable term ‘public administration’ and the ascendancy of ‘public management’. Thus change of language is no mere accident of fashion. It indicates a sea-change in the relationship between the state and the citizen” Butler/Collins (1995, p. 11).

Actual applications are found only occasionally, however. They refer to different areas of the public sector and emphasise different elements of the marketing mix.⁵ An obvious field of application is the use of communication instruments. E.g. Mawby/Worthington (2000, p. 860) report about adjustments of the British police in

⁵ Drummond et al. (2000) compare the market orientation of a British tax administration, a chain of HiFi stores and the New York Police department. They conclude (p. 585): “Transferable management principles appear to apply in the area of service delivery and business orientation.”

reaction to a changed media landscape (variety of radio and TV stations, 24 hour demand of material for news etc.):

“The police service has attempted to communicate more effectively drawing on concepts and practices usually associated with the worlds of commerce, business and the private sector, including corporate identity management, media and public relations and marketing [...]. In doing so there has been an emphasis on a *service* rather than *enforcement* role.”

An integral component of every marketing approach is segmentation. Segmentation has corresponding effects on communication policies but also on other elements of the marketing mix. Segmentation approaches already can be found in some efforts of a more customer-specific public service provision. By applying suitable criteria, customer groups are distinguished, are approached as specifically as possible, and provided with customized services.⁶ The marketing concept offers a comprehensive bracket for these activities.

Service quality (or customer satisfaction) is in the focus of much research in service marketing and more generally service management. On the one hand, this refers to an extensive discussion of suitable ways to measure this construct. On the other hand, this refers to the question of the role of service quality in connection with the SPC. If critics lament at a too narrow product concept of NPM and demand moves to put quality management etc. to the foreground, then this follows only the logic of service management. So there is no withdrawal from a take-over of management techniques of

⁶ The task of a consolidation of all relations of a “customer” with the respective local public administration proves to be difficult. A comprehensive account of all customer relations is much more complex than in enterprises of comparable size due to the mostly very heterogeneous IT landscapes of public administrations. Also legal aspects of the protection of data privacy etc. have to be taken into account. Segmentation approaches in connection with a database marketing are therefore not in widespread use.

the private sector asked for, but rather giving stronger attention to the service character of the public supply.

When it comes to service quality as perceived by the customer, or the closely connected construct of customer satisfaction, then it is first of all necessary to change the point of view and to look on the provision of service from the perspective of the customer. As Johnson/Gustafsson (2000, p.5) put it: “The question is whether you really adopt the ‘lens of the customer’ in this process or fall into the trap of relying on the ‘lens of the organization’.” It would be a “trap”, if one would pre-structure the information about the customer perception by one’s own perspective of provision, e.g. by the organizational cluster of departments that is quite irrelevant from the customer point of view. So for building a model of the “lens of the customer” it is not enough to gather information about the customers/citizens that “demand” services. One has to pose the right questions in order to build a consistent model of customer perception. This model is then used to develop a survey in order to measure customer satisfaction. Analysis of data and decisions on priority setting close the loop. Without any consequences distilled from the data and put into action, the whole thing would not be much use. So the priority setting refers to the tougher management part of the loop. Local government organizations have started to use these kinds of instruments of quality management. Especially when starting these activities, one has to rely on (often expensive) external advice and help. In the long run, organizations should accumulate the technical know-how to operate the basic job of this measuring customer satisfaction loop on their own. First, it will be a job that has to be repeated, second, and more important, it is a job that refers to central knowledge of the respective service provision.

The measurement of customer satisfaction has an outside-in orientation. How does the often uttered critique that reform efforts around output steering have led to a much

too strong weight on an inside perspective of the organization fit in?⁷ One argument would be that in the course of caring for output, of describing and measuring output, local government has not taken sufficient steps to build up a real service orientation. This then has led to an inside-out look on output. One could defend this by arguing that the step from input to output a such was hard enough to establish throughout the public administration. So it is no wonder that, in order to include all employees in this change process, inside factors were stressed so much.

From the service marketing perspective the concept of internal marketing is useful in this respect. One basic tenet, already mentioned relating to the SPC, is the relevance of employee satisfaction for customer satisfaction the so-called “satisfaction mirror” (Heskett/Sasser/Schlesinger 1997). Steps taken to convince employees about reforms are in line with this. But regarding internal marketing there are at least three components to distinguish. These components can also be seen as three phases of the development of the concept of internal marketing (cf. Rafique/Ahmed 2000). According to this, phase one is concerned primarily with employee motivation and satisfaction. The underlying idea is treating employees as customers. In the public sector this notion might be of some relevance because of the strong legal protection that employees in the public sector have. Phase two has a strong focus on consumer orientation. Because of the interaction of employee and customer (the service encounter) it is important to have customer-orientated employees. Internal marketing is used to promote this. The most recent phase three shows a broadening of the concept, now it is also about strategy implementation and change management. All three components are of relevance for

⁷ For example, referring to the Tilburg Model in the Netherlands, Hendriks/Tops (2003, S. 315) state the goal for the renewed version “to make local government work less ‘from the inside out’ and more from the ‘outside in’. The supply-side focus and the product orientation of the Tilburg model (old style) should be ... bent towards a demand and problem orientation.”

public management. They are directed to the balance of interaction between inside-out and outside-in perspectives of service provisions.⁸ In some ways internal marketing concepts defend (or help to understand) why a preoccupation of government with itself occurred in the course of outside oriented reforms.

5.3 *Problems and Caveats*

This paper argues for giving the service character of public offerings more weight, and in particular to include research from service management in public management. Attention is given to the service process with its integration of the customer. A basic problem of this approach is, whether it is really in line with public management to treat citizens like customers. There are some reform directions that distinctively argue for a different approach. They demand a more political concept of the citizen. From that point of view public management is not so much about efficiency and effectiveness but more about political participation.

The position on this certainly depends on political values. But it is clear that the perspective given here is just one dimension to look at public sector in general and to the reform of the public sector in particular. There are many different views on government in the realm of economics. For example, a public choice perspective in the tradition of Brennan and Buchanan that looks at government as monopolist with the “power to tax”. Or, for example, the Hirschman and Tiebout perspective of “exit, voice, and loyalty” as different ways for citizens to react to government. There is the Samuelson “public good” perspective that emphasises the problem of revealing the preferences of consumers that use goods collectively that are financed by taxes. By

⁸ Cf. Mawby/Worthington (2002) pp. 867-871 and Drummond et al. (2000) on the roles of internal marketing for public management.

including the voluntary provision of public goods, this perspective extends to the general problem of co-operation. In all these approaches the role of consumer/citizen is seen differently, but the relation between these approaches is more that of complements than that of substitutes.

Has service management something to offer on the aspect of political participation? In this respect the general character of services as *processes* and as inherently *relational*, seems to fit in quite well. In particular, for local government the concept of relational marketing is appropriate, at least on a broad level. The goal of attracting (the right) customers and keeping them is in line with a Hirschman and Tiebout perspective, where the migration of citizens between local communities acts as an equilibrium mechanism for demand and supply of local public goods. There exist different concepts of relational (service) marketing. For example, one can distinguish between database marketing, interaction marketing and network marketing (Coviello/Brodie/Munro 1997). Common feature of these concepts is that they extend beyond the mere transactional exchange modus. The network approach bears relevance for the aspect of organizing political participation. Municipalities have to a great extent act as an agent that has to mediate and coordinate interests of different groups. Interests of private households, business firms, non-government organizations, interests of different levels of external and internal government have to be integrated. Establishing and operating a platform for a mutual value enhancing exchange of these “stakeholders” can be seen as a basic service provision of local government.

6 Conclusions

There is an ongoing process of reforms in the public sector. This process encompasses different traits. One trait is NPM and the instruments subsumed under this term. Different versions of NPM can be found around the world. They vary in approach, in levels of government included, and in the time paths taken. But the change from input to output orientation and the transfer of management techniques from firms acting in the market is a common denominator. How do these reforms look from the perspective of service management and its more recent developments? That has been the guiding question of this paper.

The paper started with the characteristics of services in general and public services in particular. Main point was the strong hold that service provisions ought to have in their process and relational characteristics. The integration of the customer in the process of service provision is the reason behind this. The “customer” might be a private household, a firm, some non-government organization, or even some different governmental unit outside (or inside) the organization looked upon.

Taken this as a background, the output orientation of reform was given a closer look. We examined in particular one instrument of reform, the product catalogue and its use. This instrument might be seen as one of minor interest, but at least in Germany it has considerably shaped the reform achievements at the local level of government, be it for the good or the bad. Two things were pointed out. First, the service character played no substantial role. Second, the focus on output leads in the political context of local government to a widening of the “result dimensions”. There is an extension or shift to outcome instead of output. This second point is an argument found regularly in more recent assessments of renewing NPM.

This point was also taken up again in the discussion of the service profit chain (SPC) as an instrument for public management. The paper argues to use SPC and some similar models in public management. Although there are differences in the goal formation and goal content between local government institutions and service firms in the market, it is argued that the fundamental factors of success are quite comparable. The picture of simple profit maximization as fundamental market force is not of much help when it comes to explain real strategic management of firms. Firms operate in a world that is of comparable complexity to that of the public sector.

If one accepts this view of convergence between public and private service provision, what has service management to offer? In Section 5 the paper tries to give some clues for answering this question. Service as a process, perceived quality and customer satisfaction, service marketing and political participation are discussed in their relation to public service management. There exists already some empirical research on these topics, but this is quite dispersed. There exist also some approaches on public sector reform that stress the service character more heavily. Actual steps are taken by some local government organizations in this direction. But what is missing, is a more direct inclusion of the public *service* management perspective.

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