Private And Public Services: Productivity and performance migration

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Abstract
When comparing and contrasting features of the public service sector with that of the private service sector the differences between the notion of customer and citizen, notable in the past, are now blurring. The complexity of defining stakeholders in the public sector still remains a non-trivial challenge. Whilst acknowledging the important differences that exist between the two service sectors, we address the recent structural changes in the public service sector that aim to adopt best practices taken from the private into the public sector. Under the New Public Service Management paradigm the public sector is becoming more integrated with the demands of the market. We compare and contrast appropriate performance and productivity tools and highlight the challenges in adopting performance and productivity measures in the public sector in an attempt to become more efficient and effective.

Keywords: Public services; productivity; performance management;
1.0. Introduction

Appreciating the importance of productivity and performance in public services through an historical lens highlight that as long ago as the 1940’s the public service had responsibility for managing large expenditures; not least in the delivery of a comprehensive welfare state (Smith & Raistrick, 1994, p 58). By the end of the 1970’s however, critics from the right of the political debate argued that government should have a minimal role in economic growth or even welfare services; and that individual enterprise, mechanisms of competition, and the market should take precedence (ibid, p 59). The Charity Commission (2007) reported that health and social care accounted for approximately 31 per cent of all public services delivered by charities, followed by education, 15 per cent and children’s services, 14 per cent. Between them, the private and voluntary sectors provide over 70 per cent of social care (Department of Health, 2006). Today, even liberal thinkers accept that the market cannot function alone and that the government should intervene in some instances in order to make up for market imperfections and provide public services (Hughes & O’Neill, 2008). Whereas in the private service sector economic considerations of efficiency and profitability have underpinned strategic intent, and where it is argued that social justice and equity are notionally pre-eminent in the public service sector (Laing, 2003). Compared to the private service sector which functions within the competitive boundaries of the market, the public sector engages in much more complex tasks, is involved in activities with much greater symbolic significance and operates in the public interest (Massey & Pyper, 2005, p17). Moreover, political imperatives result in the public sector being faced with regular changes in policy and direction (Goldstein & Naor, 2005).

However, in developed countries around the world we now see a blurring of what previously were identified as two distinct service delivery sectors: namely (1) the public services - fundamentally funded through grants from civil taxation - and (2) the voluntary sector - of which there is no universally accepted definition; and a problem illustrated by the variety of terms used to describe the activities e.g., voluntary, third, not-for-profit, non-profit, charity, civil society (Kelly, 2007).

This paper differentiates the public service from other services by its funding derivation (i.e., predominantly taxation); with the voluntary sector covering organisations that are formally constituted, not profit distributing, constitutionally independent from the state and benefiting from voluntarism, either through donations or volunteering (Parker, 2012). Whilst the principles of fairness, equity and justice are inherent to the public sector and constitute an important difference with the private sector, this paper will focus on the operational differences that exist between the two sectors.

The paper proceeds as follows. We will first compare and contrast appropriate performance and productivity tools and highlight the challenges in adopting performance and productivity measures in the public sector in an attempt to become more efficient and effective (Hughes, 2003). Next we compare the two sectors. Specifically, we identify and examine five key differences. We will, argue that the public sector is more bureaucratic than the private sector, analyse the differences between the terms customer and citizen, explore the complexity of defining stakeholders in the public sector, compare the difference in organisational culture and staffing and, finally, identify the different measurement tools that are used in each sector. The paper then progresses to show the important differences that still exist between the two service sectors which continue to be problematic when attempting to adopt productivity and performance management. Next, we address the recent structural changes in the public sector that aim to import best practices taken from the private into the public sector (Ferlie et al., 1996, p 10). In the context of the New Public Management paradigm, we will argue that the
public sector is becoming more integrated into the market, has been putting citizens at the heart of service delivery and is adopting productivity and performance management in an attempt to become more efficient and competitive. We conclude by emphasising the need to address the productivity and performance management in the public services differently from that applied in the commercial services sector. Nonetheless, “… finding useful productivity measures in the public sector has proved problematic,” (Jääskeläinen & Lönnqvist, p.290); and the migration of tools and methods from the commercial sector to the public services, for example the Balanced Scorecard, has not been totally successful (Parker, 2012).

2.0. Productivity and performance in the public and private service

While much of the extant research on productivity and performance management has been focussed on manufacturing outputs (Klassen et al, 1998), the service literature develops the traditional view of productivity by emphasising factors such as the quality of service (Sahay, 2005), effective use of resources (Grönroos and Ojasalo, 2004) and the importance of customer satisfaction in service provision (Parasuraman, 2002). Public services are recognised to mean those funded by the public purse rather than those delivered by the public sector (Blair, 2006). Blair (2001) identified the promotion of alternative providers and greater choice as one of the four principles of his public service reform programme and integration of the voluntary and private sectors in the provision of public services to underpin the concept of joined-up government (Parker, 2012) supported by greater use of information technology. The service literature identifies numerous organisation-wide performance models applied to service delivery organisations. Two commonly referred models used across both of the service sectors are: the 3Es model (economy-efficiency-effectiveness) and IOO model (inputs-outputs-outcomes) (Boyne, 2002; Parker, 2012). However, it is widely recognised that public service organisations need far better measures of outputs and outcomes (Boyne, 2002). Intuitively, public service productivity closely relates to economy, efficiency, outputs and inputs, but it also encompasses some aspects of outcomes and effectiveness. Therefore it is argued that a new model is required for productivity and performance management. Table I shows comparison of the typical features of manufacturing, private service and public service operations in order to illustrate differences in productivity, performance and measurement.

Table I. Comparative features: manufacture, private service and public service

<table>
<thead>
<tr>
<th></th>
<th>Manufacture Products</th>
<th>Private Commercial Services</th>
<th>Public &amp; Not-for-profit Services</th>
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<tbody>
<tr>
<td>Unit outputs</td>
<td>Artefact</td>
<td>Prescribed service</td>
<td>Prescribed service</td>
</tr>
<tr>
<td>Value produced</td>
<td>Customer/Market</td>
<td>Customer/Market</td>
<td>Welfare enhanced</td>
</tr>
<tr>
<td></td>
<td>determined</td>
<td>determined</td>
<td></td>
</tr>
<tr>
<td>Objective and value</td>
<td>Creating shareholder</td>
<td>Creating shareholder</td>
<td>Serve society</td>
</tr>
<tr>
<td>adding</td>
<td>value adding</td>
<td>value</td>
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The unit of measure and outputs of manufacturing operations is a tangible artefact; output can be measured and its quality characteristics can be assessed objectively. In services, the output is intangible in nature, making it difficult to quantify as the consumer also has emotional and psychological perceptions. The outputs of private commercial services are valued by fee-paying customers. However, in the public and not-for-profit sector, services have no market price (they are provided free of charge at the point of use – for example, libraries). Moreover, public services are invariably provided in sectors in which private companies do not operate (e.g. police, fire service). Identifying the output of these types of services can be complex and problematic from the productivity and performance point of view. For example, the aim of a police service cannot be the maximisation of the output (i.e. crimes) but rather to prevent them from occurring – and simply implying a decline in crime or an increase detection is directly as a result of the police service is far too simplistic. Additionally, while private companies aim to create financial returns for shareholders, public services have missions related to improving public welfare - unlike the imperative of creating profits and growth in the private sector.

It might be argued that public service productivity can be defined similarly to the way in which productivity in the commercial sector is regarded. After all, productivity, the ratio of inputs to outputs, captures the concept of measuring the efficiency and effectiveness of transforming inputs into outputs from the perspective of the needs of the end-consumer i.e., customer or citizen. However, challenges occur in delivering on the concept because of the uniqueness of the public services as previously discussed above. One of the key challenges in the productivity measurement of all services, whether commercial or public, relates to defining the basic unit for measuring the quantity of the services performed (Sherwood, 1994).

2.1. Bureaucracy and market dynamics

One of the key differences between the public and the private sector is that public services function within a bureaucracy and the private services are driven by market imperatives (Jääskeläinen, 2009). It is argued that bureaucracies and the market are completely opposing forms of operating environments and whilst bureaucracies rely on rigid hierarchies, the market relies on end-user choice (Hughes and O’Neill, 2008). Empirical data from 34 studies identifies that public service organisations are more bureaucratic than their private counterparts and this percolates all the way down to customer-facing service delivery (Goldstein & Naor, 2005). Webber (1946) one of the founders of modern public administration, argues that there are six principles for modern systems of bureaucracy. These principles include; a hierarchical structure, authority that derives from the law and detached employees (Ferlie et.al, 1996). Since the 1980’s, the public sector has been moving away from this centralised and rigid form of organisation but is still much more concerned with structure and processes compared with the private sector (Ferlie et al, 1996). Public services tend to be much more standardised and lack the innovative and risk taking mind-set that exists in the private sector. From a service operations perspective, bureaucracies translate into a system with red tape and preoccupied with processes rather than results (Ferlie et al, 1996). Organisations in the private service sector, conversely, cannot afford to be slow moving and static and need to respond to the fast-paced external environment and threats from competitors. There is only a single government that offers public services but there are a multitude of private organisations that are competing for customers. If private service companies are not perceived to put customers first and continuously improve their service
offerings, then their customers will take service provisions elsewhere. This is not the case however in the public sector as public services are often free or represent a monopoly in their field and so the customer has no other choice.

2.2. Customers versus citizens
A significant difference between the private and public service sector is the notion of serving customers or citizens (Rosen, 1993). As can be seen in Table II there are distinct comparative imperatives for private commercial services and public services. Customer/client status, customer/client satisfaction, output measures, capital investment and customer/client power have been isolated for particular comparison. These distinctions underpin the rationale for operational imperatives and establishment of organisational cultures.

Table II. Private versus public service sectors

<table>
<thead>
<tr>
<th>Perceptions</th>
<th>Private sector</th>
<th>Public sector</th>
</tr>
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<tbody>
<tr>
<td>Customer/client status</td>
<td>Customers are won through hard effort and may be lost to competition if perceived service quality is not achieved to their (changing) satisfaction.</td>
<td>A number of citizens and public are served. In each, a specified selection of individuals can receive the service, but on terms and conditions established by law and regulations.</td>
</tr>
<tr>
<td>Customer/client satisfaction</td>
<td>Identified and measured often as a key indication of performance and quality.</td>
<td>Solicited if service being reviewed internally.</td>
</tr>
<tr>
<td>Output measure</td>
<td>Quantified in terms of what the market ie customers are prepared to pay.</td>
<td>Measured by inputs, for example the number of staff, equipment, building space etc, rather than by outputs ie, educated people, healthy society etc.</td>
</tr>
<tr>
<td>Capital investment</td>
<td>Return on investment (ROI) is evaluated relative to what customers are prepared to pay for the service created by the inputs.</td>
<td>Costs are tightly controlled in-line with agreed budgets. Investment is only granted when taking into account Public Sector Borrowing Requirements.</td>
</tr>
<tr>
<td>Customer/client power</td>
<td>Customers ultimately hold the power for determining which services will be produced and how they will be delivered.</td>
<td>Customers (citizens) not generally consulted as government has mandate to decide on what services are to be delivered. Public contact is deliberately minimized.</td>
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</table>

It is argued that ‘one of the most important principles in quality management is customer satisfaction, but defining the customer is a difficult and politically controversial issue for many public agencies’ (Goldstein & Naor, 2005, p. 215). In order to be sustainable, private service providers must have customer focussed strategies. Customers in the private services sector are, however, much better understood (Parker, 2012) and therefore arguably better served. Indeed, there have been a multitude of marketing studies that address consumer behaviour, segmentation, customer satisfaction, and customer loyalty. According to Zeithaml et al. (2009, p.140), ‘finding out what customers expect is essential to providing service quality, and marketing research is a key vehicle for understanding customer expectations and perception of service’. Any organisation that does not undertake appropriate marketing research will not be able to completely understand their customers and how to satisfy their
needs. Citizens and consumers of public services, on the other hand, have not been the object of as many studies and are not so well understood. Public services may develop and change due to a political or economic imperative, but arguably the transformation may not be initiated with the customer in mind.

2.3. Stakeholders
It is difficult to identify the variety of stakeholders that place different demands and constraints on public service providers (Goldstein & Naor, 2005). For example, who are the stakeholders in a correctional facility or a prison? Are the prisoners, staff, victims or society customers or stakeholders? If all parties are customers and/or stakeholders, then who should be prioritised? Many public services, such as correctional services, face such a dilemma - as they all have different and sometimes even opposing claims upon the service (Massey & Pyper, 2005). In private service suppliers, stakeholders are more easily identified; and usually comprise shareholders, customers, and staff. Satisfied customers will usually spread positive word-of-mouth endorsement (Zeithaml et al., 2009, p 185). In a public service setting however, consumers may feel that it is their ‘right’ as tax payers to receive a service provision. Moreover, even when that service exceeds expectations, praise and endorsements is rarely given.

2.4. Service and organisational culture
Organisational culture is defined as ‘the pattern of shared values and beliefs that give members of an organisation meaning, and provide them with rules for behaviour in the organisation’ (Zeithaml et al., 2009, p 348). Developing and maintaining an organisational culture that is aligned with the strategic intent is essential to a successful enterprise (Berry, 1942). Successful alignment depends largely on the leaders’ ability to demonstrate a passion for service excellence. Developing an effective service culture that is underpinned by customers’ needs requires multi-faceted development. For the public service that throughout its history has been driven by compliancy, regulatory frameworks, and with highly structured internal functional boundaries, any transition is difficult. From a customer’s perspective, the customer-facing employees are the organisation (Zeithaml et al., 2009, p 352). In a public sector service context, however, it is difficult to identify and develop an appropriate organisational culture for several reasons. Firstly, the public sector employs different professions that have various career motivations; and second, it undertakes services that have much greater symbolic significance than the private service sector (Massey and Pyper, 2005, p 17). Service companies in the private sector ‘accept as customary the idea that staff who handle customers must not only be trained to do so, but should also be recruited specifically for the job’ (Parker, 2012, p 408). Hochschild (1983) referred to the skills needed by service delivery employees as ‘emotional labour’. These skills are different to psychological and physical skills and include the set of emotions that should be displayed to customers to make them feel welcome and respected (e.g., friendliness, smiling and empathy). Traditionally, the public service sector has comprised highly trained professionals with functional skills; and would not be described as ‘emotional labour’.

According to Goldstein and Naor (2004, p.211), even if public sector employees were hired and trained to display emotional intelligence and put the customer first, ‘employee involvement, teamwork, training and empowerment are attributes that require low hierarchy and bureaucracy in order to increase information flow and accessibility of employees to one another’. Moreover, public services may not provide the right organisational structure to encourage teamwork, client care and staff empowerment (Parker, 2012, p 413). Indeed, in a study undertaken by Goldstein and Naor (2004) which compares service delivery in private and public hospitals, the authors’ found that there were many more explicit rules and
regulations in public hospitals which created more challenges to the implementation of customer-centred programs such as TQM. Moreover, public institutions do not provide the same financial incentives that are present in the private sector and which often motivate employees to innovate and excel.

3.0. Productivity and performance metrics

3.1. Productivity models
As with all organisations, performance measures must be aligned and contribute to the strategic intent and overall mission (Zeithaml et al, 2009). Such measures or targets are either operational, in as far as they monitor and record outputs at the tactical level, or they are at the strategic level with the aim of confirming that the strategy is on track (Parker, 2012). For both the private, commercial services and public sector services the input measures to determine productivity status can be relatively easy to capture if merely using costs as the measure of inputs (e.g., annual budget or grant). However, the greatest problems arise in output identification and definition depending on the organisational line-of-sight. The strategic-level challenges are related to the fact that public organisations produce various services (e.g. welfare, education, healthcare, childcare, utilities, transportation, police and cultural endeavours). Thus, from the strategic perspective, it is difficult to measure the quantity and quality of outputs produced in all these services and to aggregate to an index measure. This is illustrated in Table III. The most commonly adopted productivity models include the (1) the 3E’s model (economy, efficiency, effectiveness) that attempts to monitor dynamic conditions e.g., GDP; (2) IOO (inputs, outputs, outcomes) that measures the change in productivity as a result of an initiative e.g., introduced technology; (3) Resource-based Model that tracks and measures trends caused by application of particular internal resources e.g., change in payment and reward systems; and (4) Industrial Organisation Model that measures changes in performance resulting from external factors e.g., customer needs surveys.

Table III. Productivity Models: Strategic level

<table>
<thead>
<tr>
<th>Macro-Level Approach</th>
<th>Definition</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3 E’s</strong> =</td>
<td>The level or change in productivity - Dynamic</td>
<td>GDP, Import/Exports, Total Production/Sales.</td>
</tr>
<tr>
<td>Economy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effectiveness</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>IOO =</strong></td>
<td>The Level or Change in Productivity - Static.</td>
<td>HRD, R&amp;D, Technology</td>
</tr>
<tr>
<td>Inputs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outputs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outcomes</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Industrial Organisation Model (IOM)</strong></td>
<td>External Efficiency – Customers choice.</td>
<td>Market research, Competition information, Customer needs survey.</td>
</tr>
</tbody>
</table>
At the tactical-level of activities, productivity measurement challenges relate to identifying the outputs (both tangible and intangible) of specific service activities. The client/citizen-specific service process is complex and vague (e.g. child welfare related to social problems). Hence, it is problematic to identify what actually is the output that should be measured. Such vagaries lead to process loss of credibility and mistrust of the indices (Parker, 2012). Grönroos and Ojasalo (2004) argue that service delivery outputs are only useful if customers/clients/citizens are willing to purchase the outputs. They propose that financial measures that calculate the value of the outputs of the service process are the only valid measures of service productivity; and a market value should be applied to all outputs. The challenge, therefore, would be to agree what the market price would be for any given output. Klassen et al. (1998) propose a similar technique for measuring service productivity. But the notion of theoretically charging by the hour, as a lawyer or architect might do, invokes foreseeable operationalisation problems. McLaughlin and Coffey (1990) argue that the measurement of service productivity could be based on the disaggregated process of a complex mix of services. However, again, the problem arises when attempting to establish the boundaries of any particular service activity. Table IV summarises the various approaches available, the problems associated with definitions and typical examples.

Table IV. Productivity Models: Tactical level

<table>
<thead>
<tr>
<th>Micro-Level Approach</th>
<th>Definition</th>
<th>Examples</th>
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According to Parker (2012, p. 419), ‘measurement against a set of standards is essential to the achievement of superior performance in any organisation, whether in the public or private sector’. Indeed, in the past decades, there has been an increase in the number of customer-focused models and concepts that measure satisfaction. Methods that are used in the private service sector have different imperatives to the requirements of the public service sector (Chen et al., 2004); as commercial models of service usually define quality in a highly individualised manner and may undermine some of the more collectivistic ideals that exist within the public sector (Laing, 2003). The private sector has become focused on the delivery of exceptional service; and has applied models such as TQM, Six-sigma and the like. However, the public sector is more concerned with equity and the effective treatment of social issues (Laing, 2003). Rather than focusing on individualistic ideals of choice and economic performance, the public service sector must facilitate the creation of ‘social profit and capital’ through the delivery of services benefit society as a whole (Laing, 2003). Since the 1980’s, and under a managerial culture that has developed in the public services sector, performance measures have been used at an operational levels, but it is argued that at a
strategic level, public servants should be more concerned with the social profit that is created by the delivery of public services (Laing, 2003). The public sector has indeed embraced some best practices and quality models from the private sector, but ultimately, the two sectors must apply different models when measuring and evaluating their services (Smith & Raistrick, 1994, p 41). Chen et al. (2004) propose a model for best practices for the delivery of customer-facing services in the public sector. Their model, COSES (customer-orientated service-enhancement system) integrates the two dimensions of 1) system design and management and 2) fostering organisational culture. The model is illustrated in Figure 1.

Fig.1. COSES (customer-orientated service-enhancement system)

3.2. Take-up of performance models by the public sector
Terry (2003, p.1) defines the 1980’s as a ‘decade of massive upheaval in the structures for delivering public services, with the creation of executive agencies in central governments, privatisation of utilities, contractorization in local government and a renewed emphasis on better financial management and accountability’. Indeed, a highly centralised and bureaucratic public sector was needed during the first part of the 20th century and especially in the post-war era, but by the 70’s, a turbulent external environment, revolutionary advances in technology and growing criticism from the public pushed governments around the world to reassess their administrative policies (Smith & Raistrick, 1994). This was especially evident in the US and the UK where leaders Reagan and Thatcher, respectively, implemented
changes in the management of the public sector and took many practices from the private sector in an attempt to become more efficient and innovative. This style of public administration has become known as the New Public Management (NPM) and is defined as ‘an ideological thought system, characterized by the importation of ideas generated in private sector settings within public sector organisations’ (Pollitt, 1990, p. 10-11).

While it is acknowledged that public service organisations are more bureaucratic and centralised than private service organisations (Goldstein & Naor, 2005), governments since the 1980’s, have been decentralising and focusing less on control and more on results (Smith & Raistrick, 1994). In their essay ‘Reinventing government’, Osborne and Gaebler (1992) explain how in the early 1990’s and in a pilot program in Visalia, California, civil servants were encouraged and incentivised to think like business owners. The example they give is of a parks and recreation employee who was able to put a down payment on an Olympic-size swimming pool without any authorisation from his superiors. If the down payment was not made immediately, the community would have probably lost the well-priced pool and may have had to spend much more time and money acquiring it. The example also illustrates how local public employees were incentivised to implement cost saving ideas by receiving a percentage of the savings. Previously, cost savings in the public sector would result in a smaller budget allowance the following year, but under this new model, employees were encouraged to innovate and reduce costs, just like their private sector counterparts.

Empowering and incentivising staff is key in successful private sector organisations and is slowly being implemented in the public sector (Osborne, 2010).

3.3. Market and competition

In addition to moving away from this bureaucracy ‘that produces inertia, lack of enterprise, red tape and mediocrity’ (Hughes, 2003, p 34), the NPM introduces the market and competition as the inertia for seeking efficiencies. Market economists argue that bureaucratic models restrict freedom and do not provide incentives, choice and consumer sovereignty that are present in the market; and which encourage innovation and competition (Randall & Smith, 1994). Lane (2000) argues that the NPM is based around two beliefs. First, that supply should be separate from demand and, second, that there should always be competition in demand. Consequently, governments should no longer see themselves as the sole provider of public services and, when more cost-efficient, should use contractors to deliver particular services. In the UK, since 1988, public institutions no longer had an ‘automatic right of existence’ and tendering was done by ‘Compulsory Competitive Tendering’ (CCT) (Massey and Pyper, 2005, p 115). Under CCT, many public services are therefore directly provided by the private sector and include healthcare, prison management and security, rubbish collection and many more. Public-Private Partnerships (PPP’s) and privatisation have also flourished under the NPM and have reduced the public-private divide.

Within this changing paradigm, the differences between customers and citizens have also been reducing (Hoggett, 1991). In the early 2000’s and under Prime Minister Blair, New Labour wanted to be seen as putting the customer at the heart of public service delivery (Massey & Pyper, 2005, p 105). In 2000, the Cabinet Officer noted that ‘The Government is committed to making public services available 24 hours a day, seven days a week, where there is a demand’ (Massey and Pyper, 2005, p 105). The delivery of services in the private sector was in fact seen as exemplary and something that the public sector should drive towards. In order to demonstrate that the Government was taking the notion of consumer sovereignty seriously, the development of performance indicators and the participation of the public in assessing the quality of service delivery were essential.

Prior to the 1980’s, many public services had no interest or need to measure costs, outputs or even customer satisfaction. In the construction of public buildings, for instance, ‘given that
there was no incentive to build efficiently, effectively and to time, the budget and time overruns were excessive and wasted public funds’ (Massey and Pyper, 2005, p 134). As citizen confidence was diminishing by the 70’s however, reforms were developed and implemented in the public sector to monitor and improve the delivery of public services (Higgins, 2005). Many of these performance indicators (PI’s) were taken from US and the private sector. For instance, in 1982 in the UK, the Financial Management Initiative (FMI) was developed, and various PI’s were introduced to monitor the efficiency and productivity of government departments (Massey and Pyper, 2004, p134). After their election in 1997, the New Labour in the UK introduced the initiative: Best Value and Comprehensive Performance Assessment policies. These aimed to improve the quality and effectiveness of public services whilst using best practices from better performing authorities as well as the private sector (Higgins, 2005).

Since the development of the New Public management, it can be argued that the divide between public and private services has been reduced. With the introduction of PPP’s and service contracts, many public services are provided by the private sector. However, in the eyes of some ‘fairness and justice are perceived to be the ultimate principle in the public sector’ (Chen et al., 2004, p. 414). From an operational perspective, the two sectors may become more aligned but strategically they still remain separate.

4.0. Discussion

As more and more public services are offered to outsourcing, competition will increase. This has inevitably changed the behaviour of both the voluntary and public sectors. Voluntary organisations that have previously relied on grants rather than contracts now find themselves obliged to enter the bidding for contracts. Consequently, many voluntary organisations are restructuring internally in order to create or improve the capacity to compete for contracts (Davies, 2010). Curley (2009) argues that the pressure for efficiencies on public bodies has resulted in many funders opting for larger contracts, frequently aggregating several smaller ones in the hope of achieving economies of scale. In the past, many voluntary sector organisations would find such large contracts impossible to bid for successfully due to the complex bidding process, but today this is not the case due to restructuring and re-emphasis on commercial processes.

Although small community organisations are often best placed to provide responsive support services in local communities, arguably they are also least able to secure government funding (HM Government, 2009, p. 9). Although competition is supposed to foster efficiencies, it may just destroy small and specialist charities. However, recent moves toward collaboration or even full merger between several national charities illustrate changes on the sector to consolidate (for example, partnerships with the Royal National Institute of Blind People (RNIB) and Action for Blind People; Help the Aged and Age Concern).

In a period that combines an intensification of competition for government funding together with a general economic downturn, there are both opportunities and threats. Clearly there is concern that some voluntary and not-for-profit service organisations will cease to exist or be pushed aside by private sector services, and that large providers will edge out smaller providers and international service organisations will replace local provision.

The literature on service performance management and service productivity versus public sector productivity and performance highlights a range of terminology, classifications, models and measurement approaches. Often there appears a naivety or lack of experience that supports the view that service performance and productivity models are generic and applicable to both sectors.
We argue that there is a need to regard the ‘third sector’ as unique. Moreover, performance and productivity measurement challenges relate to the definition of service outputs in the public services. In other words, what are the key elements (tangible and intangible) that constitute service outputs in the public services? The challenges related to measurement can only be solved after outputs have been properly defined.

The majority of the productivity measures presented in the service literature are market oriented and therefore constitute problems for public service organisations. The problems related to the definition of outputs have been bypassed by introducing monetary measures of outputs that theoretically encompass both tangible and intangible elements of outputs. However, a new approach is needed in the case of public services.

The intangible nature of services has been discussed in the literature. However, what this means in practice has not always been clearly defined. What has not been adequately addressed is whether the intangible features are most of the service or only a small part; and could this feature be ignored without detriment to the integrity of the performance measure. There is a lack of empirical examination of these issues.

5.0. Conclusion

Based on the literature review a promising approach for public sector productivity might be the disaggregated approach (Boyle, 2006; McLaughlin and Coffey, 1990; Parker, 2012). Such an approach, focusing on the output components at a tactical level, could alleviate the problems related to public service productivity measurement (i.e. the problem of output definition). In particular, it could help define outputs at the operative level. Such measures could then percolate up to the strategic level – similar to the Balanced Scorecard approach - (by aggregating the operative level results). Clearly this remains an interesting challenge for the productivity and performance management discipline and worthy of greater examination. To-date, there has been inadequate attention given to identifying, comparing and contrasting the significant differences between the organisations that deliver the public funded services to those in the commercial private services sector. Until greater understanding is gained there is little likelihood of successfully transferring models of productivity and performance management between the sectors or the development of appropriate models.
References


