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THESIS ACCEPTED IN SATISFACTION OF THE
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DOCTOR OF PHILOSOPHY

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Sec. Research Graduate School Committee

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COUNTING QUALITY OR QUALITIES THAT COUNT?
AN INQUIRY INTO PERFORMANCE REPORTING
FOR PROFESSIONAL PUBLIC SERVICES IN AUSTRALIA

A THESIS SUBMITTED FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

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LIST OF ABBREVIATIONS

| | |
|--------------|--|
| AAT | Administrative Appeals Tribunal |
| ABS | Australian Bureau of Statistics |
| ACCC | Australian Competition and Consumer Commission |
| ACOSS | Australian Council of Social Services |
| ACP | Australian Council of Professionals |
| ACSA | Aged Care Standards and Accreditation Agency Limited |
| ACT | Australian Capital Territory |
| ADJR | Administrative Decisions and Judicial Review |
| AGPS | Australian Government Publishing Service |
| AIHW | Australian Institute of Health and Welfare |
| ALP | Australian Labor Party |
| AMEX | American Express |
| ANAO | Australian National Audit Office (Audit Office) |
| APS | Australian Public Service |
| APSB | Australian Public Service Board |
| APS | Australian Public Service |
| APSC | Australian Public Service Commission |
| AQC | Australian Quality Council |
| ASO | Australian Standards Organisation |
| ATO | Australian Taxation Office |
| Audit Office | Australian National Audit Office (ANAO) |
| AusInfo | Australian Government Information Service |
| BIE | Bureau of Industry Economics |
| BSC | Balanced Score Card |
| CAA Act 1997 | Commercial Authorities Accountability Act 1997 |
| CEO | Chief Executive Officer |
| COAG | Council of Australian Governments |
| CPA | Competition Principles Agreement |
| CSA | Child Service Agency |
| CSO | Community Service Obligation |
| CTC | Competitive Tendering and Contracting |
| DEETYA | Commonwealth Department of Employment, Education, Training and Youth Affairs |
| DIMA | Commonwealth Department of Immigration and Multicultural Affairs |
| DIST | Commonwealth Department of Industry, Science and Technology |
| DoF | Commonwealth Department of Finance |
| DoFA | Commonwealth Department of Finance and Administration |
| DSS | Commonwealth Department of Social Security |
| DVA | Commonwealth Department of Veterans Affairs |
| EPAC | Economic Planning and Advisory Council |
| ERC | Expenditure Review Committee |
| FaCS | Department of Family and Community Services |
| Finance | DoF 1976-1997 and DoFA 1997-present |
| FMA Act 1997 | Financial Management and Accountability Act 1997 |
| FMIP | Financial Management Improvement Program |
| FOI | Freedom of Information |
| GBE | Government Business Enterprise |
| GDP | Gross Domestic Product |

| | |
|---------------------|--|
| HRSCFPA | House of Representatives Standing Committee on Finance and Public Administration |
| IAC | Industries Assistance Commission (1973-1989) |
| IC | Industry Commission (1989-1996) |
| Implementation Unit | Service Charters Implementation Unit |
| IPAA | Institute of Public Administration Australia |
| ISO | International Standards Organisation |
| JCAPS | Joint Council of the Australian Public Service |
| MAB | Management Advisory Board |
| MAC | Management Advisory Committee |
| MBO | Management by Objectives |
| MIAC | Management Improvement Advisory Committee |
| MIS | Management Information System |
| NCC | National Competition Council |
| NCP | National Competition Policy |
| NCA | National Commission of Audit |
| NOW | The North-West One-Stop Welfare Centre |
| NPM | New Public Management |
| NSW | New South Wales |
| NZ | New Zealand |
| OECD | Organisation for Economic Cooperation and Development |
| Ombudsman | Office of the Commonwealth Ombudsman |
| PBS | Portfolio Budgeting Statements |
| PC | Productivity Commission (1996+) |
| PENs | Portfolio Explanatory Notes |
| PEPs | Portfolio Evaluation Plans |
| PIC | Performance Improvement Cycle |
| PIs | Performance Indicators |
| PIMS | The Profit Impact of Market Strategies |
| PMB | Program Management and Budgeting |
| PM&C | Department of Prime Minister and Cabinet |
| PPB | Portfolio Program Budgets |
| PPBS | Planning Programming Budgeting Systems |
| PPSs | Program Performance Statements |
| PS Act | Public Service Act 1997 |
| PSB | Public Service Board |
| PSC | Public Service Commissioner |
| PSQ | Perceived Service Quality |
| PSMPC | Public Service Merit and Protection Commission |
| PUMA | OECD's Programme on Public Management Service (1990-1999) and Public Management and Governance (1999+) |
| QA | Quality Assurance |
| QIAS | Quality Improvement and Accreditation Scheme |
| RCA | Review of Commonwealth Administration (J. B. Reid, Chairman) |
| RCAGA | Royal Commission on Australian Government Administration (Dr H. C. Coombs, Chairman) |
| Review | The Review of Commonwealth/State Service Provision |
| RGWR | Reference Group on Welfare Reform (Patrick McClure, Chairman) |
| ROI | Financial Return On Investment |
| ROQ | Return on Quality |

| | |
|------------------|--|
| SAAP | Supported Accommodation Assistance Program |
| SCRCSSP | Steering Committee for the Review of Commonwealth State Service Provision |
| SCNPMGTE | Steering Committee for National Performance Monitoring of Government Trading Enterprises |
| Service Charters | Commonwealth Government Service Charters |
| SFPARC | Senate Finance and Public Administration References Committee |
| SOCAP | Society of Consumer Affairs Professionals in Business |
| SPPs | Special Purpose Payments by the Commonwealth to the State and Territory Governments |
| SSCSW | Senate Standing Committee on Social Welfare |
| TARP | Technical Assistance Research Program |
| TPC | Trade Practices Commission |
| TQM | Total Quality Management |
| UK | United Kingdom |
| USA | United States of America |
| VET | Vocational Education and Training |
| WA | Western Australia |
| ZBB | Zero Based Budgeting |

ABSTRACT

This study investigates a view of quality imposed from the top in a federal system. New accountability relationships and reporting mechanisms have been introduced to make providers more responsive to policy priorities and to the needs of clients of public services. These changes have been driven by central agencies applying ideas from economics and business in developing policy and implementation guidelines. Benchmarking results for COAG and Commonwealth Government Service Charters are new accountability mechanisms that include quality in performance reporting. Quality is defined in standards, indicators, measures and information selected for reporting.

The main interest is services such as education, health and community care, that have 'professional' and 'public' qualities. Service agreements and contracts between different levels of government and with autonomous agencies, specify units of service and performance reporting is a condition of public funding. Increasingly funding is tied to specified services to achieve defined outcomes. In practice, performance reporting has encountered implementation problems associated with defining quality and selecting appropriate information. Quality standards and indicators from business frameworks have been transferred to these services.

The general topic is the transfer of business techniques, under the guise of managerialism, to improve the quality of public services. Managerialism is founded on two propositions: the superiority of business techniques and their universal application. The specific topic is the transfer of quality standards and indicators from business to professional public services. Professional public services are a difficult case and therefore a critical test of universality.

The research question asks: What are the consequences of transferring quality standards and indicators from business frameworks to professional public services? This is investigated empirically in a comparative case study of quality indicators and measures for benchmarking government services, and quality standards and information in Commonwealth Government Service Charters. The significance of this study is the centrality of performance reporting in new accountability mechanisms. The significance of the cases is the scope of services and the scale of performance reporting.

As this study demonstrates, business techniques ignore ambiguities in management theory and underestimate the significance of different contexts. Quality is not a universal concept and transfer is more complex than a private/public dichotomy. Different definitions of quality taken from manufacturing to professional public services create a quality conundrum that explains gaps in performance reporting. This is evident in the cases. Information asymmetry is a problem in contracting and this has consequences for policy evaluation and service delivery. Different definitions of quality change the balance in performance reporting between the interests of funders, providers, professionals and clients.

In theory, monitoring quality is a strategy to increase the responsiveness of service providers to policy priorities and to the needs of clients. In practice, benchmarking results and client service charters increase political control over service providers more than client control. The study also found that best practice is not exclusively in the private sector.

STATEMENT BY CANDIDATE

I, Linda Mary McGuire, declare that this thesis contains no material that has been accepted for an award of any other degree or diploma in any university or other institution, and affirm to the best of my knowledge that the thesis contains no material previously published or written by another person, except where due reference is made in the text of the thesis.



January 2004

ACKNOWLEDGEMENTS

The risk to one's sanity of exploring such an imprecise and elusive concept as quality is eloquently depicted in Robert Pirsig's *Zen and the Art of Motor Cycle Maintenance* (1974). Investigating quality for professional public services has been a long and difficult journey for an economist trained in the 1970s. This training elevated abstract theory, separated from any social context, and quantitative analysis that thrives on dichotomies.

The origins of this study probably lie in an honours thesis in 1974, which was a cost benefit analysis of the then new Medicare universal health scheme. Although described by Self (1976) as 'nonsense on sticks', cost benefit analysis introduced me to the problems of weights and measures in welfare economics. My early career was an economist in the Social Security Division of the Department of Finance. I applied for positions as a research economist in the former Social Welfare Policy Secretariat and in the Industries Commission. I was accepted by the latter and the development path seemed set. However, a move interstate took me first to the Commonwealth Electoral Commission and realm of politics, and then to Griffith University and the realm of marketing and strategic management. A Masters thesis in 1989 investigated the transfer of strategic planning in Commonwealth government agencies, and identified information as the missing link in the performance management reforms of the 1980s. Teaching services marketing and management at Monash University since 1992 has triggered an interest in the transfer of quality management techniques to public services.

Since this research started eight years ago, a diversion for two years to write the book *Australian Services Marketing and Management*, lead to an exploration of the contradictions and ambiguity in the services management literature.

The path has been smoothed by many people, and I wish to gratefully acknowledge their contributions. Firstly, I wish to thank Professor Owen Hughes for his gentle but expert hand in supervising this research, and his patience with the inevitable delays as I explored too many avenues.

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Theory construction and testing in this thesis was a particularly messy, iterative process. Liam McGuire re-acquainted me with Lego, which provides a suitable metaphor for the process of theory building to arrive at the quality conundrum that is central to this thesis. In addition to patiently enduring the long gestation, Ken McGuire edited this thesis and I thank him for his expertise and support. Dr Elizabeth Prior-Jonson and Eve Anderson, in the Department of Management at Monash University, provided helpful comments on chapter drafts and I thank them both for their interest and support.

I have come to a deep appreciation of the profound question posed by Robert Pirsig, through the voice of Phadreas in *Zen and the Art of Motor Cycle Maintenance* (1974, 232):

Does this undefined quality of yours exist in the things we observe? Or is it subjective, existing only in the observer?

EDITORIAL METHOD

This thesis was edited by Ken McGuire, BA, Teachers Certificate, GDip TESL, GDip School Librarianship, BLit.

The layout and referencing style was adapted from the guidelines in Australian Government Publishing Services (AGPS) (1996) *Style Manual for Authors, Editors and Printers*, Fifth Edition, AGPS, Canberra; and, Turabian, K. L. (1996) *A Manual for Writers of Term Papers, Theses and Dissertation*, Sixth Edition, Chicago, University of Chicago Press.

CHAPTER 1

A QUALITY CONUNDRUM

1.1 Introduction

Education, health, community care for children and the frail and elderly, are all public services that touch the lives of most citizens. In Australia's federal structure these services are primarily funded by government, but are delivered in complex networks of public, private and non-profit agencies. The Commonwealth Government is the primary funder of these services through Specific Purpose Payments (SPPs) to the States and service agreement with non-government agencies.

Publicly funded services are the interface between governments facing budget constraints and the community demanding better quality. Quality is equated with service delivery and responsiveness to the individual needs of users (OECD 1987). Consistent with the trend in Organisation for Economic Cooperation and Development (OECD) countries, growth in public expenditure has resulted in financial and management reform, and restructuring of delivery networks in pursuit of greater efficiency, effectiveness and responsiveness (Keating 1999). What has become known as New Public Management (NPM) is shorthand for the transfer of business techniques and the introduction of contracting to manage the delivery of public services (OECD 1995; 1996 & 1999).

This study examines the view of quality, imposed from the top in a federal system, to make providers of public services more responsive to policy priorities (political responsiveness) and to the needs of clients (client responsiveness). New accountability mechanisms that formalise performance reporting are changing relationships between funders and service providers, and have introduced direct accountability to users of public services. Quality improvement techniques taken from business contexts have been applied to public services, to change the culture of providers and make them more responsive to users as 'clients', 'consumers' and even 'customers' (PUMA 1995; 1996b & 1999a). This study investigates these changes by examining two contrasting accountability mechanisms and quality improvement techniques. Performance reporting by the Steering Committee for the Review of State Service Provision (SCRCSSP) for the Council of Australian Governments (COAG) (Review) has applied benchmarking to change accountability to results. Commonwealth Government Service Charters (Service

Charters) have introduced direct accountability to clients through customer service standards and complaint processes.

The general topic is the application of business management techniques to public services. The 'generic' management thesis is a fundamental proposition of what has become known as 'managerialism' (Hood 1989, Considine & Painter 1997). Managerialism is founded on two assumptions. One is the universal application of management concepts and techniques, and a second is that 'best practice' is found in the private sector defined by business and competitive markets. Supporters of managerialism argue that applying business techniques to public services will improve accountability and service delivery for clients (Osborne & Gabler 1992; Drucker 1995). Failure in practice is attributed to implementation problems explained by a gap between intentions and results.

Concepts are ideas which receive names (Rose 1993). Generic management concepts and techniques abstract from the particular to the universal. Critics of generic management argue that transfer underestimates the significance of differences between private and public services (Allison 1979; Mintzberg 1996). Dolowitz & Marsh (2000) identified 'inappropriate or incomplete' transfer as an important source of implementation and therefore policy failure. This study suggests inappropriate transfer may be explained by confusion in the policy that originates in management theory. Ambiguity in the language of management confuses the transfer of concepts and the application of techniques to different contexts including public services.

The specific topic is quality for public services. Performance reporting is the foundation of accountability mechanisms and quality improvement techniques. This study considers the transfer of quality standards and indicators from business to publicly funded services. The main interest is in quality for health, education and community services. Human services provided by professionals are acknowledged as a difficult case for performance reporting (Chalmers and Davis 2001; Ryan 2001). The 'professional' and 'public' qualities of these services pose particular challenges for performance reporting.

The significance of the topic is the centrality of performance reporting in contracts and service agreements for public services. Quality is always contentious for budget-

constrained public services. Quality entered these debates without a great deal of agreement about its meaning. There is more agreement about how to define and measure productivity than quality. The way quality is defined and reported has implications for accountability, policy and service delivery. The issues around transfer relate to the 'professional' and 'public' characteristics of services. Professional public services are a difficult case and therefore a critical test of the generic management thesis.

The research question is what are the consequences of transferring quality standards and indicators from business to professional public services? The particular context of services, as well as the generic attributes of quality improvement techniques, affects the transfer from business to public services (Rose 1993). The issues are universal concepts and the particulars of different contexts. Universal application ignores conceptual ambiguity and hides the significance of specific contexts (Pettigrew 1993; Pollitt 1995). As this study demonstrates, management concepts are ambiguous and a public/private dichotomy does not capture the complexity of transfer.

The purpose of this chapter is to outline the problem and research questions, explain the research design, describe the structure of the thesis and introduce the argument. Section 2 explains the significance of the topic and identifies the research problems. Performance reporting is central to accountability and quality improvement techniques, including benchmarking and service charters.

Section 3 describes the research design. Case study is the most appropriate method to deal with complexity and ambiguity in theory and practice (Gummeson 2001). The purpose of this case study is to investigate the transfer of quality standards and indicators from business to professional public services. Two cases were selected for comparative analysis of how quality is made to count in performance reporting. The first case investigates quality indicators used to benchmark the results of government services for COAG. The second case investigates quality standards in Commonwealth Government Service Charters. The concern is to examine how reporting balances the different interests of government funders, service providers, professionals and clients, and to consider the consequences for service delivery and policy.

Section 4 explains the structure of the thesis. A matrix structure is used to accommodate the different levels of contextual analysis, theory building and testing. Each chapter has a distinct explanatory narrative (Pentland 1999; Rhodes 2000a). At the same time Sections 2, 3 and 4 of each chapter develop an argument progressively from Chapter 2 to Chapter 8 of the thesis. Contextual analysis is fundamental to case study as action is deeply embedded horizontally in time and vertically in context (Pettigrew 1993). Any case study is effectively constructed to answer three questions (Davis & Rhodes 2000), and so the research question is considered in three parts:

1. *What has happened?*
2. *Why?*
3. *What are the consequences?*

To answer the first question, historical analysis is used to identify the timing and sequence of changes in performance reporting in the broader context of administrative, legislative, microeconomic and social policy reform. Service quality has been defined in new accountability mechanisms and quality improvement techniques taken from business to public services. However, confusion about the way quality is defined and reported is evident in policy statements, implementation guidelines and evaluations.

In order to answer the second question, institutional analysis is applied to examine the central agencies that set the direction and the ideas from business and economics that have defined the boundaries of the development path (Chandler 2001). A pragmatic mix of ideas about performance management from business, and ideas about contracting from economics, have been applied by the central agencies responsible for developing the policy and guidelines that have shaped implementation.

In answer to the third question, the issues around transfer are identified and considered. Problems associated with transfer relate to separation, specification and evidence for performance reporting. The issue is the universal application of concepts and techniques, and the particulars of different contexts. Quality is an ambiguous concept, and definitions in different improvement techniques have been taken from manufacturing and services management and applied to public services. Different definitions and complex relationships for public services explain gaps in performance reporting that limit accountability and responsiveness. The quality conundrum identifies

the particulars of the context of professional public services that have to be taken into account in reporting on quality.

Confusion in practice, about what quality is and how it should be reported, stems from different perspectives and contradictions in management theory. The problem is defining quality and untangling complex relationships for services. As this study demonstrates, this is not easy for services, and transferring definitions of quality and provider-client relationships from business to public services only increases the confusion.

In contrast to the relative coherence of economic theory, management theory consists of contrary propositions that reflect different perspectives on basic concepts (de Wit & Meyer 1994 & 1999; Palmer & Hardy 2000). This is because of the diversity and ambiguity in the social world (Lewis 2000). Concepts of strategic and performance management, taken from business and applied to public services, suggest a clarity that does not exist in management theory. Mintzberg, Ahlstrand & Lamprel (1998), for example, have identified ten different perspectives on strategic management. As Wilenski explains, the problem is that conflicting theories lead to "muddled thinking about practical problems" (1986, 62). The practical consequences are reflected in the diverse array of techniques for management, and this is particularly so for quality.

Consequently, the first step in considering the consequences of transfer is to identify and understand the conceptual ambiguity in the managerial techniques being applied to public services. Paradox offers a framework for dealing with diversity and ambiguity in the social world (Lewis 2000). Following Lewis (2000), paradox is both a guiding framework and the subject of inquiry in this study. Paradox provides a conceptual framework for investigating the practical implications of different definitions of quality. Conceptual ambiguity and transfer to different contexts is the subject of inquiry in this study. Four paradoxes, and the transfer of ideas from business and economics to professional public services, create a quality conundrum that has implications for performance reporting. The quality conundrum provides a framework to investigate the consequences of transfer and significance of context in the cases.

This thesis argues that applying quality standards and indicators taken from business to professional public services ignores conceptual ambiguities and underestimates the complexity of transfer. Ambiguous concepts and complex transfer create a quality conundrum that explains gaps in performance reporting. Conceptual ambiguities are one problem, complex transfer is another. So the second step in considering the consequences of transfer is to identify the particulars of different contexts. The transfer of ideas about quality improvement is not captured in a public/private dichotomy. On the 'private' side, manufacturing and services are different perspectives on quality that are applied to public services. On the 'public' side, markets and policy processes are different perspectives on client responsiveness.

Performance reporting has to balance the different interests of funders, providers, professionals and clients in quality. This balance has consequences for policy evaluation and service delivery. This study has developed a conceptual framework that explicitly recognises and deals with the paradoxical nature of management theories about quality. The quality conundrum identifies the synthesis necessary for balanced reporting on quality for professional public services. As this study identifies, this synthesis has to strike a balance between different interests in two strategic relationships: funder-provider interface and professional-client interface.

Information to signal quality is an essential element in service agreements between different levels of government and contracts with autonomous service providers. Specifying quality is one problem. This study explains how different definitions of quality taken from manufacturing and services management, and applied to public services, change what is reported as quality. Information asymmetry is a second problem. This study illustrates how the problem of provider-client asymmetry inherent in services exacerbates purchaser-provider asymmetry that characterises public services. Different definitions of quality and asymmetric information explain gaps in reporting that limit accountability and have consequences for policy and service delivery.

Governments providing funding, providers contracted to deliver services, professionals with technical expertise and clients with individual needs have different interests, but share responsibility for the quality of public services. Four fundamental paradoxes create a conundrum in defining and reporting on quality for public services. Different

definitions of quality change the balance in performance reporting and this has consequences for policy evaluation and service delivery. The next section explains the significance of the topic and identifies the research problems.

1.2 Context and issues

Quality is central to international debates about the consequences of public sector reforms. NPM is shorthand for reforms to the way public services are funded and provided, to make them more 'results-oriented' and responsive to users (Pollitt 1990a; Hood 1991; Hughes 1992 & 1994). Ideas have circulated in an international NPM policy community facilitated by the OECD program on Public Management and Governance (PUMA). Australia has been identified as an 'NPM heartland', along with the UK, New Zealand, US and Canada (Pollitt 1998), in which a clearly articulated philosophy of managerialism and consumerism has driven public management (Pollitt 1990a & 1998; Walsh 1994; Kettl 1996 & 1997; Schick 1999).

Internationally, governments are searching for techniques to improve the cost effectiveness of public services by making providers more accountable for results and more responsive to the needs of clients. Ideas travel easily in a global world and policy transfer is evident between OECD countries (Common 1998; Dolowitz & Marsh 2000). An NPM Policy Community has been instrumental in transferring ideas and sharing experiences. Since 1990, OECD PUMA reports, analysing and evaluating public management developments in member countries, have supported performance management reforms including service quality initiatives (PUMA 1994; 1996a; 1997 & 1999b). In March 1996 the OECD held its first Ministerial meeting on Public Management chaired by Alice Rivlin, then director of the US Office of Budget and Management. The summary report of that meeting identified a number of similarities in public management reform in member countries. Consistent objectives are more efficient and responsive public services, and strengthening accountability for results (Schick 1999). Strategies included decentralisation; re-examining the role of government; downsizing; contracting, market mechanisms and user charges; customer orientation through explicit quality standards for public services; benchmarking; and simplifying and reducing the costs of regulation.

Australian officials have been active participants in the OECD's PUMA network and the Australian experience has featured in comparative case studies on the NPM experience. PUMA's perspective is explicitly managerial and member countries share similar concerns (OECD 1987; PUMA 1994). There is evidence of convergence at the ideological level, as managerial values underpin performance management (Walsh 1994; Pollitt 1995; Kettl 1997). Whilst NPM is an international trend (Hood 1991; Hughes 1994), there is not a global model of performance management (Hood 1995a). In practice, NPM is a set of policy measures widely adopted with local variations, reflecting differences in political and institutional contexts (Pollitt 1995).

Despite drawing from a similar toolkit influenced by private sector techniques, significant differences in country contexts have resulted in divergent reform paths. Pollitt (2001a&b) argues that while there is convergence in discursive talk about NPM, there is divergence in decisions or actions. This is evident even in the NPM heartlands of United Kingdom (UK), New Zealand (NZ), Australia and the United States of America (USA). Variation is partly explained by country specific institutional constraints. In Australia these are a Westminster system of responsible parliamentary government, the distribution of power in a federal system and a tradition of public provision of social welfare services (Davis 1997).

1.2.1. A view from the top in a federal system

Profound changes have taken place in the way public services are funded and delivered in the name of efficiency, effectiveness and responsiveness. In contrast to NZ and the UK, Australia has adopted a more pragmatic and less ideological approach to reform (Hood 1991). Reform has been driven by central agencies (Wanna, Kelly & Forster 1996 & 2000), and there is a long tradition of influential autonomous policy advisory agencies (Davis & Rhodes 2000). The agenda has been clearly articulated in reports, policy documents implementation guidelines and better practice guides, and these have consistently stressed the need for balance in performance reporting.

Changing the culture of agencies delivering public services has been an explicit objective of public management reform in Australia for almost three decades (Wilenski 1986; MAB-MIAC 1992; MAB 1987). The origins can be traced back to the Royal Commission into Australian Government Administration (RCAGA), instigated

by the Whitlam Government in 1974, that reported to the Fraser Government in 1976. The Final Report in 1976 (Coombs Report), set out a comprehensive agenda for administrative reform and identified public services that are responsive to community needs as a key issue. Wilenski (1986) described the 1970s as the decade of administrative law reform, with its emphasis on accountability, review and procedural fairness in the interests of good public administration.

The election of the Hawke Government changed the focus of reform from administrative processes to performance management. In a decade of continuous change from 1983 the language of management displaced that of administration, to signal a shift in emphasis from administrative processes to results (Keating 1990; Wanna, O'Faircheallaigh & Weller 1992; MAB-MIAC 1992; Wettenhall 1997). The new language of performance management reflected the application of business techniques to public services. There was a fundamental shift from traditional financial accountability for budget expenditure to results, defined as service outputs and program outcomes (MAB-MIAC 1992). Strategies included portfolio budgeting, strategic planning and program evaluation techniques. Performance reporting was a counterbalance to devolution of responsibility for resource management from central agencies to departments and service delivery agencies (Keating 1990). Agencies adopted a bottom up approach to improving service delivery and implemented a wide range of quality initiatives, but there was no centrally coordinated quality improvement program (Trosa 1996).

In a third phase of reform from 1993, the approach to performance management shifted to competitive tendering and contracting (CTC). The language of competition and markets has displaced corporate management, as the emphasis shifted from corporate planning and portfolio budgeting to contracts and contestable service delivery (Davis & Rhodes 2000). Initially, reform concentrated on Government Business Enterprises (GBEs) but gradually the principles of contracting and contestability were extended to social welfare services (IC 1996; Davis 1997). Contracting separates policy and service delivery and exacerbates fragmentation with a service delivery model that favours competition between agencies (Davis & Wood 1998). A new resource management framework based on outcomes and outputs replaced program budgets (Wanna, Kelly & Forster 2000). These reforms compel

agencies to specify outcomes and outputs, and there has been significant growth in performance reporting. Strategies to improve service delivery for clients included setting service standards, performance reporting and encouraging active participation in designing service delivery. Service charters, introduced in 1997, are the first centrally coordinated quality improvement initiative in the Australian Public Service (APS).

1.2.2. Changing accountability relationships and mechanisms

Federalism in Australia has always been characterised by complex patterns of cooperation between two levels of government – the Commonwealth and the states (Davis & Rhodes 2000). A challenge in this system is horizontal policy coordination between programs and vertical coordination between different levels of government and agencies that deliver public services (Davis & Rhodes 2000). Performance reporting is a management technique for control in fragmented delivery systems (IC 1996). The Commonwealth government raises 75% of public revenue, but only 20% of expenditure on service provision is through Commonwealth agencies (Wanna, Kelly & Forster 2000). Consequentially, financial relations between the Commonwealth and states have always reflected a broad purchaser-provider type model (Keating 1996). The Commonwealth controls resource allocation to budget-funded public services through service agreements in the form of Specific Purpose Payments (SPP) to the states, and program grants direct to public, private and agencies (IC 1996; Simms 1999). Increasingly, funds are appropriated for 'specified services to achieve defined outcomes' (IC 1996).

Performance reporting has been a central pillar of change since 1983 (APSB-DoF 1986; MAB-MIAC 1992; MAB 1997). Performance reporting is a technique for continuous improvement in service delivery, and an accountability mechanism (O'Faircheallaigh & Ryan 1992). Changing to accountability for performance has focused attention on results, defined as 'cost effective' and 'value for money' services. Improving quality is one way to improve value. Reducing the cost through productivity improvement is another. Reporting on quality is also a strategy to increase responsiveness by making service providers directly accountable to clients. Reporting is fundamental to improvement techniques such as quality assurance, benchmarking and service charters.

In the new model of public management, client-oriented agencies define results in terms of outcomes for users rather than budgets for service providers. The problem examined in Chapter 2 is separating and assigning responsibility for quality in purchaser-provider arrangements that characterise delivery of public services in a federal system.

1.2.3 Changing performance reporting and information

Performance information is evidence about performance that is collected and used systematically to make judgements (Barrett 1997a). In theory, specifying standards, indicators and external reporting will improve the performance of agencies responsible for delivering public services (PUMA 1994; SCRCSSP 1995; MAB 1997; DoFA 1998a). Performance reporting is intended to balance the autonomy of service providers and professionals, by making them accountable to government funders for results, and to clients' needs in service delivery. In practice, information problems are commonplace, and gaps in performance reporting limit accountability.

Performance information is central to control in fragmented systems. Increasingly, program grants to agencies are service agreements or contracts for specific units of service for particular groups of clients, and performance reporting is a condition of funding (Ryan 1999; Lyons 2001). Purchaser-provider arrangements separate policy and service delivery, and performance reporting is intended to reduce the gap between government policy objectives and results achieved by autonomous service providers. In theory, agreed objectives and transparent reporting against a balanced set of performance indicators overcome the problem of incomplete information in contractual relationships (PUMA 1994; IC 1996). In practice, performance reporting problems are well documented in Australia (O'Faircheallaigh & Ryan 1992) and internationally (Carter, Klein & Day 1992; Halachmi & Bouckaert 1996). Suitable quality indicators and measures have inhibited balanced performance reporting for public services (Smith 1993; PUMA 1997b; Carter 1998).

Reporting is the means by which performance is made to 'count' for something (PUMA 1997d; Barrett 1997a). Performance reporting requires appropriate indicators and measures. Agencies responsible for funding and delivering public services in Australia are subjected to systematic performance measurement. Indeed, Australia is

considered a leader in developing performance indicators (PUMA 1997b). In practice, service agreements and contracts with agencies have encountered implementation problems associated with the difficulty of defining quality and selecting appropriate measures of service quality (Ryan & Brown 1998).

Performance monitoring is a quantitative methodology that specifies evaluation criteria, standards or indicators and reporting requirements. Criteria for evaluating publicly funded services are efficiency, effectiveness and equity. Productivity is an indicator of efficiency and measures are based on economic definitions such as cost per unit of service and output per employee. Service quality is an indicator of effectiveness, and measures are based on definitions from management and marketing, such as quality assurance and customer satisfaction. Procedural fairness is an indicator of equity and measurement is difficult. The problem examined in Chapter 3 is the relationship of quality to performance for public services.

1.2.4 Quality improvement and client responsiveness

Quality has been defined as responsiveness to the individual needs of clients, and the intent of reforms is to increase "accountability to and control by clients" (OECD 1987, 32). To this end, quality improvement techniques have been taken from business to change the focus of delivery to a customer orientation (OECD 1987; Hood 1991; Pollitt 1995; PUMA 1996b & 1997b). Osborne & Gaebler's (1992) *Reinventing Government* was instrumental in transferring the powerful 'customer' metaphor to public services. The argument is that a more managerial and marketing mentality will increase productivity and responsiveness (OECD 1987; MAB-MIAC 1992; MAB 1997). Quality Assurance (QA), Total Quality Management (TQM), benchmarking and customer service standards are examples (Gaster 1996; Pollitt & Bouckaert 1996; PUMA 1996b).

Specifying quality in service agreements and contracts, and balanced reporting, are fundamental to coordination and control in fragmented delivery systems. Within the talk or rhetoric of 'performance management', there is a fundamental tension between responsiveness to government policy priorities and responsiveness to the needs of clients (Kettl 1994 & 1997). Responsiveness to the needs of clients is described as 'client-oriented management', and responsiveness to government is described as

'results-oriented management'. The focus is on delivering 'value for money' public services. Performance is evaluated by output and outcome indicators. Quality is one dimension of value and cost is another. A consistent observation in Australian and international studies of performance reporting has been the underdevelopment of quality indicators (Pollitt 1988; Walsh 1991a; Carter 1991; Carter & Greer 1993; MAB-MIAC 1993a).

Techniques for reporting on quality taken from business have been applied to public services (DoF 1993 & 1995). However, the transfer of ideas about quality improvement is not captured in a public/private dichotomy. On the 'private' side, manufacturing and services process models are different perspectives on quality, applied to public services. On the 'public' side, markets and policy processes are different perspectives on client responsiveness.

Consequently, there are two problems. The first is the conceptual and technical difficulties of defining and measuring quality for services (Carter 1991). Specifying and measuring quality is a problem for public and private services. The nexus between quality, cost and value is different for services because of process consumption and direct interactions between providers and customers as consumers (Grönroos 1990; Gummesson 1998). Chapter 4 examines the problems arising from different definitions of quality in manufacturing and services. The second problem is applying these different definitions of quality to public services. Critics of managerialism argue that quality standards and indicators from marketing and management do not take into account the nature of quality for public services (Walsh 1991b, 1994 & 1995).

1.2.5 Professional public services

Publicly funded services, and not income support, are the focus of this study. Health, education and community services are the interface between governments and the community. Government expenditure on these services is a significant proportion of budget expenditure (Keating 1998). A fundamental issue for government is managing community expectations for better quality services, within budget constraints.

In policy documents, these services are described as 'social welfare', 'human' or 'social infrastructure' services (IC 1995b; SCRCSSP 1995 & 1997a). In services

marketing and management, these services are classified as 'professional' (Maister 1993; Silvestro *et al* 1992). These services have 'professional' and 'public' characteristics that pose particular challenges for defining and reporting on quality. Chapter 5 examines the problems in specifying and reporting on these professional and public qualities.

Specifying quality standards and indicators in ways that can be measured has impeded efforts to include quality in performance reporting (DoF 1988 & 1994; MAB-MIAC 1992; DoFA 1995a). Until 1995, Australia lagged behind OECD countries in development of quality indicators (MAB-MIAC 1992; PUMA 1996b). Previous Australian studies of performance reporting attributed under-reporting of effectiveness in general, and quality in particular, to a lack of indicators and suitable measures (Howard 1991; Alford & Beard 1997). There have been many studies of performance monitoring for particular programs, especially in health and education. In contrast, there have been few systematic comparative studies of performance monitoring in Australia (Howard 1991; MAB-MIAC 1992; Alford & Beard 1997), and there has been significant development in reporting on quality since these studies.

The significance of the research topic is the centrality of performance reporting in contracts and agreements for delivering professional public services. The research problem is the confusion in theory and practice about what quality is and how it is defined and reported. Managerial or practical interest is in quality standards, indicators and information to monitor the performance of agencies responsible for delivering public services. The explicit assumption in policy frameworks and implementation guidelines is that 'best practice' performance management and reporting is in business. Three issues around transfer, arising from conceptual ambiguity and the particular context of public services, are separation, specification and balanced reporting.

This study investigates how quality is made to count in performance reporting for public services. The quality imperative is weaker for budget-constrained public services, and performance reporting is one way to strengthen this. In theory, transparent performance reporting improves accountability and responsiveness in service delivery to the needs of clients. Performance reporting is central to a wide range of quality improvement initiatives including accreditation, TQM, benchmarking, contracting and service

charters. Quality is defined in standards, indicators and information selected for performance reporting. In practice, reporting on quality has been impeded by conceptual problems in specifying quality and technical measurement problems.

The purpose of this study is to investigate how quality is defined and reported for public services. The concern is to analyse how different definitions of quality change the balance in performance reporting, and to examine the consequences for accountability. This is done by examining reporting on quality in two contrasting accountability mechanisms and improvement techniques.

Parts of this study have been subjected to peer review at conferences and through publications in refereed journals. The publications from this research are listed in Appendix A. The next section explains the design of this study. A more detailed explanation of case method and the issues in this design are provided in Appendix B.

1.3 Research design for a comparative case study

A research design is a framework that provides the logic that links the conclusions from the data collected to the research question (Yin 1989). This research is structured for explanatory research using the analytical logic of 'case study method' to justify explanations (Yin 1989, 1984 & 1994). Case study is a systematic social science research method that has a distinctive strategy for collecting and analysing evidence (Yin 1993). A case study is the preferred method for theory testing where the contextual boundaries are not clearly defined, and the researcher is unable to exercise external control over the study of complex social phenomenon (Yin 1984 & 1994).

Case study as a research method has been described as naturalistic (Yin 1989), post-positivist (Gove & Fisk 1992), direct (Mintzberg 1979), holistic (Gummesson 1991a), qualitative (Creswell 1994) and ethnographic (van Maanen in Eisenhardt 1989). The philosophical foundation of the method is 'modern empiricist' (Hunt 1993), which assumes that empirical testing provides grounds for accepting some knowledge claims and rejecting others. Explanations in social science involve theory construction and testing (Hunt 1993; de Vaus 1994; Chalmers 1999). Theory construction proceeds from observation to theory by a process of induction. Methodological debates relate to both the nature of theory and to observation or 'facts' (Stretton 1987; Chalmers 1999).

Explanation in case studies is based on interpretive methods to justify claims, not falsification of a hypothesis using statistical methods (Chalmers 1999). The design logic that links the data collection and analysis to the research questions in case method is analytical, not statistical. Analytical logic enables the researcher to make inferences concerning causal relationships and to generalise the findings (Yin 1994).

Constructing a framework for analysis and choosing the objects or domains for comparison are challenges for theory-based comparative studies in general (Lynn 2001). In this study, the challenge was constructing a framework to examine transfer and compare different techniques for monitoring quality for professional public services. The research design had to confront two significant problems: quality is inherently paradoxical and public services defy precise classification. Paradoxes and different political and social contexts make comparative analysis of public management reforms difficult (Dobuzinskis 1997; Lewis 2000).

All explanations in social science are selective (Stretton 1987). The selection of a problem, its variables, the design and purpose of a research program and interpretation of data are subjective (Gummesson 2001). Professional public services are deeply embedded in complex service delivery systems. The selection of a case, or cases, for comparative analysis is theoretical. As Gummesson (2001, 34) argues:

Cases are used to arrive at specific or general conclusions about certain phenomena, recognising a multitude of variables, complex interrelationships and ambiguities in social life.

Social causation has to deal with complex chains of cause and effect through time (Stretton 1987). Different research methods have different procedures for inquiry and different tests for justifying explanations. A distinctive feature of a case study research method is that theory-building and theory-testing occur simultaneously. Theory testing proceeds via reasoning based on logical inference that leads to conclusions about theoretical propositions. This contrasts with statistical inference that enables generalisation from observations based on representative sampling. Explanations from case studies depend on the conceptual framework for selection and analysis of evidence or data (Lynn 2001).

1.3.1 Case study: narrative and analytical logic

Case studies are usually reported as a narrative (Rhodes 1998) or chronicle (Chandler 2001). The narrative mode is "not a stylistic choice; it is inherent in the purpose of case studies and the nature of their inquiry" (GAO 1990). Analytical logic links the findings to the research propositions and question. Explanation is based on justification of observed relationships, not falsification of a hypothesis (Chalmers 1999). Analysis is continuous throughout the research process, not a step after the data collection. Analytical logic is used to identify patterns and relationships, to assess their meaning and importance and to build an explanation of events (Yin 1989; GAO 1990).

Case studies rely on consistent evidence to build a coherent, plausible relationship between cause and effect (Yin 1989). The criterion for causality is the coherence of the evidence and its consistency with the pattern being explained. This requires a very high standard of inferential logic (GAO 1990; Lynn 2001). Three principles of data analysis in case method employed in this study were the use of multiple sources of evidence, creating a case study database, and maintaining a chain of evidence (Yin 1994).

Subjective judgements are based on interpretive methods (Nevett 1991; Dobuzinskis 1997). This means scientific realism, which Hunt (1994, 24) defines as the view that "all knowledge claims must be critically evaluated and tested". Qualitative methods of analysis in case study method rely on pattern-matching, explanation-building and chronology.

Research on quality crosses disciplinary boundaries and the conceptual framework used in this case study is interdisciplinary. This was developed from a review of research on performance management and quality in the literatures on public management, strategic management, services marketing, services management and economics. The conceptual framework provides the analytical logic for selecting and interpreting the documentary evidence in the cases.

1.3.2 Levels and units of analysis: a hierarchy of cases and classification for comparative analysis

Different levels of analysis create a hierarchy of cases within a study (Yin 1994). Section 2 of each chapter is a case study of the path of change in public management reform that identifies three phases in the Australian experience. This is a 'view from the top' of reforms that have changed the nature of purchaser-provider arrangements for professional public services. This analysis progresses through a number of levels or layers. Chapters 2 and 3 provide the broader contextual analysis that explains the shift to performance monitoring and measurement. Chapters 4 and 5 provide the specific contextual analysis that explains the approach to reporting on quality for professional public services. Section 3 of each chapter is in effect another case study of the transfer of ideas and techniques from business management to public services. A private/public dichotomy does not capture the complexity of transfer, which for quality is from manufacturing to services. Chapters 2 to 5 provide the broader contextual analysis for the cases in Chapters 6 and 7.

Whilst it is important to be clear about the focus of a case (Yin 1989), 'units' have fuzzy boundaries in social science (Pettigrew 1993). Units are usually organisational groups such as agencies or organisations. Standards, indicators and associated measures to monitor quality for professional public services are the focus of this study. Interest is in quality for professional public services. The cases in Chapters 6 and 7 examine two contrasting approaches to accountability and quality improvement. The unit of analysis in the first case is the quality indicators and measures in the reports of the SCRCSSP. The unit of analysis in the second case is the quality standards and information on compliance in reports on Commonwealth Government Service Charters.

The issues around transfer, identified in Part I, are separation, specification and the evidence to signal quality in performance reporting. Purchaser-provider arrangements separate responsibility for service delivery outputs and policy outcomes. The question is whether performance reporting links the quality of outputs to social policy outcomes. Quality is defined in performance standards and indicators. Performance reporting has to balance the interests of funders, providers, professionals and clients.

The question is whether performance reporting overcomes information asymmetry between funders and providers, and between professionals and clients.

Classification identifies the distinctive characteristics of a class. The purpose of classifying public services is to gain a better understanding of the problems in specifying and reporting on quality. A major difficulty encountered in this study is that public services elude precise classification. Interest in this study is in *professional public services*, not the public sector or public agencies. The problems in defining and reporting on quality arise from the 'public' and 'professional' characteristics of these services. Appendix C explains how this classification was derived.

A typology that recognises 'professional' and 'public' attributes draws on classifications from public and services management literatures. Public management classifications are useful and identify dimensions on public-private continua with implications for monitoring quality. However, it has been argued that there is as much diversity between agencies within the public sector, as there is between the public and private sectors (Carter, Klein & Day 1992). A significant source of this diversity is explained by shifting the focus from sectors and agencies to services. Changing the level of analysis from agencies to public services is a fundamental analytical shift in this study. Services marketing and management classifications are useful in highlighting dimensions on manufacturing-services continua, with implications for monitoring quality. Process consumption for services and credence attributes of professional services explain information asymmetry in provider-client relationships and performance reporting problems.

Changing from dichotomies to continua for classification is a second fundamental analytical shift in this study. This highlights two debates that complicate the study of the transfer of business techniques to public services. The public/private debate is about the transfer of concepts and techniques from economics and business to the public sector and agencies. This debate originated in the public management literature (Allison 1979). The manufacturing/services debate is about the transfer of a production process model of performance management to services. This debate originated in the services management literature. Professional public services connect these debates.

The issue is the particulars or differences between *services*, and the issues around transfer are not captured in a public/private dichotomy.

1.3.3 Contextual analysis: historical institutionalism and path-dependent change

Contextual analysis is fundamental to case study, and significant in explaining events (Yin 1984; Pettigrew 1993). This study combines historical and theory-based conceptual analysis (Lynn 2001) to analyse the transfer of ideas about performance reporting from business to professional public services. The framework for selecting context variables is analytical synthesis from interdisciplinary research (Pettigrew 1993). Two explanations of the pattern of reform are path dependency of historical events and institutional theory (Rhodes & Davis 2000; Pollitt *et al* 2001).

Path dependency emphasises the timing and sequence of changes, which requires historical contextual analysis (Pierson 2000). A broad conception of path dependency is that prior events in a sequence influence trajectories and outcomes. A narrow conception is that steps in a particular direction induce further movement in the same direction (Pierson 2000). A broad conception of path-dependent change is applied in this study and offers important insights from analysis of historical causes. Contextual analysis in Section 2 of Chapters 2 to 7 identifies the 'path of change' (Chandler 2001) or 'trajectory of reform' (Pollitt & Summa 1997; Pollitt & Bouckaert 2000) in Australia. Chronologies are important in identifying the path dependence of change. Appendix D provides a detailed chronology that identifies events, institutions and ideas that have influenced the trajectory of reform. Election cycles, structural change in portfolio responsibilities, microeconomic and social policy changes, and financial management reform at the Commonwealth level are key contextual variables. A significant driver of change has been the shift to outcomes and outputs budgets, and performance reporting, as a condition of funding for federal grants, service agreements and contracts for professional public services.

Structure is an important element of institutional analysis (Peters 1993 & 1999), and the structure of interest in this study is the performance reporting mechanisms that are the foundation of accountability and quality improvement. Institutional explanations of change focus analysis on agents of reform (Pollitt & Summa 1997; Pollitt *et al* 2001). Ideas set the direction and define the boundaries of the development path (Chandler

2001). Section 3 of Chapters 2 to 7 analyses the central agencies and the ideas from economics and business management that have shaped policy and implementation guides. Central agencies establish detailed frameworks for management (Davis 1995). Ideas are clearly articulated in policy documents and implementation guidelines developed by the Australian National Audit Office (Audit Office) and the Department of Finance and Administration (Finance). The role of the Audit Office in the accountability story has shaped the shift in performance reporting from financial to efficiency and performance audits. Finance's role and the budget story have shaped the shift from program budgets, to measurement outcomes and outputs. Budget reform has opened departments and agencies to central inspection and decisions (Davis 1995). Performance reporting is changing strategic control from departments to central agencies, which earlier managerial techniques failed to do, by capturing control of the evaluation agenda (Zifcak 1994 & 1997). The Productivity Commission (PC) is the government's principal advisory body on microeconomic reform, and a powerful advocate for the primacy of the productivity imperative. The PC has been instrumental in linking microeconomic and social policy reform.

1.3.4 Theory building: social paradox in management theory

Many different ideas have driven NPM, and reformers have "indiscriminately mixed and matched ideas with little regard for the contradictions" (Kettl 1996, 260). Contesting proverbs in public administration and management reflect ambiguity that originates in management theory. Conflicting theories lead to "muddled thinking about practical problems" (Wilenski 1986, 62). Identifying the ambiguities in management theory is a first step toward explaining practical difficulties in defining quality and gaps in performance reporting. A challenge for explanatory analysis is to sort out the impact and consistency of management theories (Davis & Weller 1996). Strategic planning and financial management are top-down strategies based on economic theories of the firm. TQM is a bottom-up improvement program that calls for devolution of responsibility (Grant, Shani & Kirshnan 1994). Both approaches require performance reporting but the perspective on control is fundamentally different.

The rhetoric 'let the managers manage' and 'make the managers manage' reflects the tension in 'managing for results', between responsiveness to political priorities and to the needs of clients, that confronts service providers. Tensions in management theory

have been described as paradoxes (Quinn 1988; De Wit & Meyer 1994; Handy 1994). *The New Fontana Dictionary of Modern Thought* defines paradox as a statement that has contradictory consequences (Bullock & Trombley 1999). A paradox explores the tension between two extremes or opposite positions as a first step towards synthesis (de Wit & Meyer 1994; Selznick 1996; Lewis 2000). As Selznick (1996) argues, dichotomies are pernicious but are a first step to reconciliation. Identifying tensions as paradoxes reveals complex interrelationships that have to be managed (Lewis 2000).

As Poole & van de Ven (1989) explain, paradoxes in management theory are social rather than logical. In philosophy, logical paradoxes are about inconsistency in premises and assumptions. Social science paradoxes are inconsistencies in observation and interpretation of the real world. Paradox is used to identify different conceptualisations of organisations and social systems (Poole & van de Ven 1989). In this view each theory is an alternative or partial view of a multifaceted reality. In this study, social paradox offers a way of dealing with the contrary propositions and contradictions in management theory and practice.

Identifying the tensions in management theory is the first step in explaining the practical difficulties encountered in striving for balanced reporting. In reporting on quality managers must find ways of dealing with social paradox that originate in management theory. This study identified four social paradoxes, summarised in Table 1.1, that reflect ambiguity in the concepts of accountability, performance, service and clients. These social paradoxes create a quality conundrum that has practical consequences for performance reporting. The quality conundrum is a conceptual framework that identifies the particulars of the context of professional public services that have to be taken into account for balanced reporting on quality.

1.3.5 Selecting the cases and evidence

Case studies in public management are 'critical experiments' (Allison 1979) that are used for theory testing and explanatory research (Yin 1994). Comparative analysis necessarily sacrifices some of the depth of analysis in a single case to focus on similarities and differences between cases. Two cases were selected to investigate contrasting accountability and quality improvement techniques.

Table 1.1 Four Social Paradoxes Create a Quality Conundrum

| Paradox | Perspectives | Tension | Debates | Issues |
|---|---|---|---|---|
| Accountability Who is accountable for quality of public services? | Responsibility (audit for control) Responsiveness (evaluate for improvement) | Managerial autonomy & professional standards Political priorities & client needs | Purpose (ends) monitoring - budget control & improving service delivery. Performance reporting (means) - audit & evaluation | Different definitions of responsiveness; and separating responsibility for quality in policy and service delivery networks. |
| Performance What is the relationship between quality and performance for public services? | Policy outcomes Service outputs | Monitor results against program objectives Monitor cost and quality of service delivery | Value for public services - economic & social. Performance information for public services - quantitative & qualitative | Different definitions of value for public services; separating outputs and outcomes; standardising outputs; and measurement of quality. |
| Service How is quality defined and reported for services? | Service quality Customer service | Monitor technical and process quality Monitor customer perceptions of process quality | Nature of quality - manufacturing and service paradigms. Relationship of quality to performance-provider and customer views | Different definitions of quality for services; process consumption; and information asymmetry in provider-client relationships. |
| Clients What is the nature of client relationships and process quality for public services? | Consumers Citizens | Consumer needs, wants and satisfaction (exit & choice) Citizen needs, rights and empowerment (voice & participation) | Process quality for public services - customer service & procedural fairness Choice and voice for client responsiveness - market & political processes | Different definitions of clients; and equity dimensions of process quality for public services |

The first case examines quality indicators and measures in performance reporting by the PC, acting as the secretariat for the Steering Committee for the Review of Commonwealth/State Service Provision (SCRCSSP). The Review is a cooperative

development between the Commonwealth, State and Territory governments. Efficiency and effectiveness indicators have been developed to benchmark the performance of 'social infrastructure services'. Benchmarking results is the accountability mechanism, and performance reporting is external. Quality is a measure of effectiveness, defined as 'conformance to standards' and 'fitness for purpose'. The significance of this case study is the unprecedented scale and scope of quality indicators. The primary source of evidence for this case is the *Reports on Government Service* (SCRCSSP 1995, 1997a, 1998a, 1999, 2000a & 2001).

The second case examines quality standards in Commonwealth Government Service Charters, introduced by the Howard Government in 1997. All Commonwealth agencies dealing with the public are required to publish a charter of service quality standards, set in consultation with clients, and report on performance in their annual reports to parliament. The accountability mechanism is a service guarantee and performance reporting is internal. Quality is defined as 'customer service' (Ellison 1999, 2). The significance of this case study is the systematic implementation of complaint mechanisms. In the absence of choice between service providers, consumers rely on complaints and appeal mechanisms to voice dissatisfaction. The primary sources of evidence for this case are the service charter guidelines (DIST 1997b; 1997c; MAB-DIST 1997), agency charters and annual reports, and two whole-of-government reports (Ellison 1999 & 2000).

The cases are interpretive accounts based on evidence collected from the public record. Path dependence of change was investigated using historical institutional analysis. Any chronology is necessarily selective. Appendix D provides the chronology that identifies events, institutions and ideas which have influenced the trajectory of reform. Institutional explanations of the pattern of reform focus on the agents of reform (Pollitt *et al* 2001). Section 3 of each chapter examines the institutions and ideas that have influenced reform, by analysis of selected documents (Rhodes 1998 & 2000a). Appendix E lists, in chronological order, the primary Australian documentary sources. The sources of the documentary evidence selected include parliamentary committees, central agencies, departments and independent advisory agencies. The documents include White Papers, reports, policy statements, key speeches, implementation guidelines, better practice guides and performance reports. The evidence in these

documents supports the analysis of the transfer of ideas from business to public management. OECD PUMA Documents that provide evidence of ideas circulated in an international policy community are in Appendix F.

There is considerable debate about the nature of quality, and its relationship to performance, for services (Zeithaml 2000). Confusion surrounding these debates is exacerbated when quality improvement techniques are applied to public services. This explains the confusion surrounding the selection of appropriate quality standards and indicators for professional public services. In this study, the focus is on the specification of quality and selection of standards and indicators, rather than measurement instruments. Psychometric properties of particular measures of service quality, a dominant theme in the service quality literature, are not investigated. Establishing the conceptual dimensions of service quality logically precedes the development of measurement instruments.

1.4 Thesis outline in a matrix structure

A matrix structure is used in this thesis to accommodate the different levels of contextual analysis, theory building and testing. The structure is summarised in Table 1.2 over the page. A more detailed outline of the structure is given in Table B1 in Appendix B. There are two parts in this thesis. Part I, in Chapters 2 to 5, provides the contextual analysis and develops the quality conundrum that is the conceptual framework for analysing the cases. Part II, in Chapters 6 to 8, is a comparative analysis of the way quality is defined and reported. Benchmarking (Chapter 6) and Service Charters (Chapter 7) are contrasting accountability mechanisms and quality improvement initiatives that rely on different approaches to performance reporting. Benchmarking results is examined in Chapter 6 and Service Charters in Chapter 7. A comparative analysis in Chapter 8 examines the strengths and limitations of the managerial techniques and the implications for policy and service delivery.

As the title indicates, each chapter has a distinct explanatory narrative (Rhodes 2000a). At the same time, the argument in answer to the three parts of the research question is developed progressively in Sections 2, 3 and 4 respectively from Chapter 2 to Chapter 8. Section 2 responds to the first question of what has happened. A pattern in the growth in reporting on quality for public services is identified in three phases in reform

Table 1.2 A Matrix Structure Accommodates Complexity

| CHAPTER | SECTION 2 | SECTION 3 | SECTION 4 | CONCLUSION |
|---|--|--|--|---|
| 1. A quality conundrum | What has happened? | Why? | What are the consequences? | Thesis |
| In theory balanced performance reporting improves responsiveness to policy priorities and to clients' needs | Path of change is from public administration to performance management and contracting | Central agencies drawing ideas from business and economics shape policy and implementation guidelines | Four social paradoxes and transfer from manufacturing to professional public services create a quality conundrum | Quality for professional public services is a critical test of the universality of performance management |
| 2. Responsive Public Services | Changing accountability mechanisms and relationships | Central APS agencies Performance management and principal-agent relationships | Complex accountability relationships for public services | Performance reporting has to balance responsibility and responsiveness |
| 3. The Metering Problem for Public Services | Changing financial management and performance reporting | Finance Audit Office Performance measurement | Complex links between service delivery outputs and social policy outcomes | Performance reporting has to link outputs <i>and</i> outcomes |
| 4. The Quality Variable for Services | Quality improvement frameworks from business | MAB-MIAC/MAC Ombudsman/ ACCC Many models | Three different definitions of quality for services | Services have technical <i>and</i> process qualities |
| 5. Professional and Public Service Qualities | Contracting and performance reporting for social infrastructure/ welfare services | PC NCP links social policy to financial management reforms | 'Professional' and 'public' attributes | Clients are consumers <i>and</i> citizens |
| 6. Performance Reporting for COAG | Performance indicators and measurement | PC Benchmarking results | Limits reporting to quantitative measures of quality | Limits of a production process model and performance measurement |
| 7. Service Charters in the APS | Service standards and complaint mechanisms | DIST/Finance/ PSMPC Service guarantees | Limits reporting to process quality | Limits of a customer service model of client responsiveness |
| 8. Counting Quality or Qualities that Count | Problems in separation, specification and reporting | Limits contracting and business frameworks for reporting | Selection has consequences for service delivery, policy outcomes | Gaps in reporting limit accountability and client responsiveness |
| 9. New Ideas, Persistent Realities | Transfer is complex | Professional public services are a difficult case. | Quality for professional public services is a new arena for old debates | Quality conundrum explains gaps in reporting |
| In practice gaps in performance reporting limit accountability and responsiveness to client needs | Different definitions of quality and information asymmetry change the balance in performance reporting | Quality is ambiguous and a public/private dichotomy does not capture the variation in service contexts | Economic and business models assume a clarity that does not exist in theory or in practice for public services | Ambiguous concepts and transfer from manufacturing to professional public services create a quality conundrum |

linked to election cycles, administrative, legislative and financial management reform in APS. Path dependence of change is explained by social policy in a federal system and two decades of financial and management reform at the Commonwealth level. Purchaser-provider arrangements in a federal system, and an outcomes and outputs budget framework, mandate specification of service outputs and quality.

Section 3 of each chapter responds to the second question of why, by explaining the changes. Institutional analysis identifies the ideas and agencies that have been instrumental in shaping the approach to reporting on quality. A pragmatic mix of ideas about performance management from business, and ideas about contracting from economics, is evident in policy frameworks and implementation guidelines. A troika of Finance, the Audit Office and the PC (Wanna, Kelly & Forster 1996) as agents of reform explains the elevation of the productivity imperative and the shift to performance measurement. In contrast, devolution of responsibility for management improvement to agencies explains the diversity of approaches to quality improvement.

Section 4 of each chapter responds to the question of consequences by considering the transfer of performance management, and quality improvement techniques, from business to public services. In theory, transparent reporting on quality increases accountability of service providers and improves responsiveness to the needs of clients. In practice, different definitions of quality and gaps in performance reporting limit accountability and responsiveness, and this has implications for policy and service delivery.

The final chapter summarises the argument, considers the general lessons from the case study, discusses the limitations and outlines an agenda for further research. The path from public administration to public management, and on to governance, has changed performance reporting. Changing from administration to management emphasises results over bureaucratic process (Davis 1989). Shifting from managerialism to contractualism does away with the 'public' in management (Davis 1997a). Managerialism brought the language and techniques of performance management and quality improvement from business to public services. Contracting has elevated the language of economics and quantitative approaches to performance reporting.

There is more information now about quality for professional public services, and the balance in performance reporting on quality has shifted from providers to the views of funders and clients. However, different definitions of quality do explain gaps in reporting that limit accountability and responsiveness to clients. A public/private dichotomy does not capture the path of transfer from manufacturing to professional public services. Professional public services are a limiting case for generic performance management and a customer service metaphor for client responsiveness.

Performance reporting is an external accountability mechanism for control over autonomous providers and professionals, and a technique to improve the responsiveness to clients and to political priorities. Performance measurement is a quantitative accountability mechanism and this is an old debate. The conceptual richness of quality for professional public services does not translate easily into quantitative measures, scales or indices. As the quote attributed to Albert Einstein points out, what gets counted as quality may not necessarily be what counts. Furthermore, what is counted as quality has implications for who gets what in allocating scarce public resources. Qualities that count are a value judgment that is managed by political processes in democratic societies.

1.5 Conclusion

Information is fundamental to performance reporting, which is the foundation of accountability and quality improvement. Information about quality is fundamental to performance management. Reporting is important precisely because it does illuminate results (Kettl 1997), and determines the place of quality in the value equation for public services. The definition of quality in standards and indicators, and the information selected for performance reporting, determine whose interests are taken into account in allocating scarce budget resources, and who gets access to professional public services. Specifying and reporting on quality is more difficult than productivity, in part because there is less agreement about what quality is for public services. Professional public services pose particular challenges for specifying and reporting on quality.

The research question is what are the consequences of transferring quality standards and indicators from business to professional public services? The simple answer is that

it all depends. This is because ambiguity in the language of quality management confuses the transfer of concepts and the application of quality improvement techniques to public services. Four social paradoxes and complex transfer create a 'quality conundrum' that has practical consequences for performance reporting. Ambiguity in the concepts of accountability, performance, service and clients explains the four social paradoxes. The particulars of different service contexts explain the limits of transfer of business techniques from manufacturing to professional public services.

The social paradoxes that constitute the quality conundrum are at the very heart of debates about the best way to fund and deliver services. There is a fundamental tension between the role of performance reporting in agency theory and in quality improvement. This reflects contradictions and deeply entrenched debates in management theory that lead to confusion in practice. Micklethwait and Wooldrige (1996) describe this as the 'battle ground' where scientific and humanistic approaches to management compete. Quality improvement is the epicentre of this debate (Grant Shani & Kirshnan 1994). Responsibility for outputs linked to policy outcomes, and responsiveness to clients' individual needs, pull service providers in different directions.

The language of 'purchasers and providers', 'outcomes and outputs' and 'customers' suggests a clarity for professional public services that does not exist in practice. Information asymmetry is more complex than suggested by the principle-agent model (PUMA 1999b). Divergence between the interests of funders and providers, and between professionals and clients, contribute to policy failure. In practice, incomplete quality indicators and measures may increase rather than reduce the gap between policy intentions and service delivery results, by distorting value judgements.

Frameworks from economics and services marketing and management do not resolve the quality conundrum for professional public services. Contracts, a production process model of performance management and customer service standards increase rather than reduce the separation between funders and providers, between outputs and outcomes, and between professionals and clients. Quality as an indicator of

effectiveness is concerned with program outcomes or results. Providers have information about outputs, funders want information about outcomes.

Funders, service providers, professionals and clients have different interests and different information about quality. In theory, transparent reporting on quality improves accountability of service providers for specified outputs linked to outcomes. In practice, standards and indicators limit accountability to what can be specified and quantified, which is not necessarily the dimensions that have the greatest impact on service delivery and policy outcomes.

Quality as an indicator of client responsiveness is concerned with service delivery. Process is one dimension of quality for professional services. Assurance of technical quality is another. Professionals have information about technical quality and clients' about process quality. Balancing professional autonomy and responsiveness to clients needs in performance reporting, has to be added to the balance between managerial autonomy and political responsiveness.

Health, education and community services are of vital importance. Quality, as this study illustrates, is deeply paradoxical for these services. The first step in managing the quality conundrum is to recognise that quality is not a technical variable. Qualities are negotiated between funders and providers in political processes, and between professionals and clients who coproduce services. Services are unavoidably human, and process consumption changes the relationship between costs, quality and performance. Client-provider relationships are different for professional services, and the technical expertise of professionals and the perceptions of clients who coproduce services are different qualities. The quality imperative is different and has an equity dimension for public services, and client satisfaction is at best a partial measure. Clients have to trust the technical expertise of professionals and expect them to exercise a duty of care. Citizens expect to be dealt with equitably, and trust in government is what is at stake.

NPM is a contradictory set of propositions (Hood 1991 & 1995a). These contradictions are the contemporary equivalents of Herbert Simon's administrative proverbs. Simon's

(1946, 150) critique of administrative theory in the 1940s resonates in contemporary debates about public management and governance:

A fact about proverbs that greatly enhances their quotability is that they almost always occur in mutually contradictory pairs.

Most of the propositions that make up the body of administrative theory today share unfortunately this defect of proverbs. For almost every principle one can find an equally plausible and acceptable contradictory principle. Although the two principles of the pair will lead to exactly opposite organizational recommendations.

Contesting proverbs are like social paradoxes that offer contrary advice. 'Let the managers manage' and 'make the managers manage' reflects the tension between political control and managerial autonomy in the 'managing for results'. 'Doing more with less' and 'doing it nicer', in the rhetoric of performance management, reflects the tension between policy outcomes and responsiveness to clients.

In answer to the research question, different definitions of quality and information asymmetry explain gaps in performance reporting that limit accountability, and this has consequences for policy and service delivery. The issues around transfer relate to accountability relationships and the qualities of professional public services. Accountability relationships are complex. Funders, providers, professionals and clients share responsibility for performance. Funders are responsible for policy outcomes and respond to political priorities. Service providers are responsible for service delivery outputs and respond to managerial priorities. Professionals are responsible for technical quality of services provided and respond to professional priorities. Direct accountability to clients changes professional-client relationships by making professionals responsive to clients' individual needs and process quality. Purchaser-provider arrangements separate and assign responsibility for the cost and quality of outputs linked to social policy outcomes. Responsiveness to clients adds a new outward dimension to accountability. Separation in contracting increases the tension between political control and managerial autonomy. Performance reporting has to balance accountability relationships in two directions: funder-provider interface and professional-client interface. Information asymmetry in these two relationships also explains gaps in performance reporting.

The quality conundrum assists in understanding the nature of quality for professional public services and the causes of gaps in performance reporting. The way this

conundrum is managed through the definition of quality in standards and indicators, and the information selected for performance reporting, has implications for policy evaluation and service delivery.

CHAPTER 2

IN SEARCH OF RESPONSIVENESS

2.1 Introduction

This study is a 'view from the top' in a federal system that divides responsibility for publicly funded services between three levels of government and agencies in the public, private and not-for profit or community sector. The Commonwealth Government is the primary funder of these services through SPPs to the States and service agreements with non-government agencies. So in a sense, purchaser-provider arrangements for public services are not new in Australia's federal system (Keating 1996). However performance management and contracting have changed accountability relationships between funding agencies (funders) and service providers (providers). This chapter examines these changes and the implications for monitoring quality.

The growth in performance reporting is explained by the shift to accountability for results and the broad application of performance management to public services (Hood 1991; Pollitt 1995; Hughes 1998). Performance management changes accountability relationships between governments that fund and agencies that deliver public services (Pollitt 1990a; Hughes 1994; Zifcak 1994; Uhr 1999). Performance reporting is an external accountability mechanism for control over autonomous service providers and professionals responsible for delivering publicly funded services. NPM represents a fundamental shift in accountability from a traditional bureaucratic model of public administration to a managerial model based on 'best practice' in the private sector (Hood 1991, Hughes 1994 & 1999). Responsiveness to clients needs adds an outward dimension to traditional accountability relationships for public services. Performance management and contracting have introduced new accountability mechanisms and increased external performance reporting and measurement. This explains the growth in quality standards and indicators to monitor the performance of service providers.

This chapter considers the question of who is accountable for quality, which has to be understood in the broader context of shift to performance management under NPM in Australia. The issue is separating and assigning responsibility for quality in the complex purchaser-provider arrangements that characterise service delivery in a federal system.

Section 2 examines the timing and sequence of public management reform at the Commonwealth level. Federalism has always separated the roles and responsibilities of funding agencies and service providers in Australia. However three decades of reform in pursuit of efficiency, effectiveness and responsiveness have profoundly changed the way public services are funded and delivered. Public management represented a fundamental shift in accountability relationships from the traditional bureaucratic administrative model to a performance management model (Pollitt 1990a; Hood 1991; Hughes 1994; Zifcak 1994; Uhr 1999). Davis (1997a) identified managerialism and contractualism as two distinct phases.

Path dependence of change is explained by the shift from administration to performance management and contracting. Three decades of structural change, financial management reform and new accountability mechanisms have profoundly changed the way public services are funded and provided. Relationships have been recast as contracts between purchasers and providers. New performance-oriented accountability mechanisms have changed the focus from administrative processes to 'managing for results'. Performance monitoring has been a central pillar of these changes (APSB-DoF 1986; MAB-MIAC 1992; MAB 1997).

Section 3 examines the institutions and ideas that have defined the boundaries of the development path. Central agencies have developed frameworks for performance management and contracting in policy and best practice implementation guidelines (Davis 1995). The Audit Office has been instrumental in the shift from financial to efficiency and performance audits. Budget reform has opened departments and agencies to central inspection and decisions (Davis 1995). Finance has been the key agent shaping the implementation of budget reform. Responsibility for management improvement has been devolved to agencies, and the Management Advisory Board (MAB) and its successor, the Management Advisory Committee (MAC), have been instrumental in developing best practice guides that have shaped implementation.

A pragmatic mix of ideas from economics and business has been clearly articulated in policy documents and implementation guidelines developed by these agencies. The practical expression of economic rationalism has been market-type mechanisms including contracting, competitive tendering and competition between providers. The

practical expression of managerialism has been the transfer, under the rubric of best practice performance management, of benchmarks and service standards from business.

Reform has built incrementally from a mixture of local and international ideas (Wanna, Kelly & Forster 2000; Davis & Rhodes 2000). However, core objectives of efficiency effectiveness, and responsiveness have provided a degree of continuity and coherence to continuous change (Davis & Rhodes 2000). Performance reporting is a mechanism for external accountability and for quality improvement. Reform in Australia has explicitly sought to sought balance these two agendas (MAB-MIAC 1992; MAB 1997).

Section 4 considers accountability relationships and mechanisms in the particular context of public services. Public accountability is a fundamental difference between public and private services. Within the rhetoric of 'managing for results', there is tension between responsiveness to the political priorities of government and responsiveness to the needs of clients. Political responsiveness is described as 'results-oriented management'. Responsiveness to clients, described as 'customer-oriented management', introduces a new outward dimension to complex accountability relationships for public services. However, if this results in confusing accountability, it will not necessarily increase responsiveness to clients (OECD 1987). The social paradox (Poole & van de Ven 1989) identified in this chapter offers alternative or partial views of accountability relationships for public services.

Accountability is fundamentally about control. Political and client control are conflicting agendas that reformers in Australia have explicitly recognised and sought to balance in introducing new accountability mechanisms (MAB-MIAC 1992). Funders, providers, professionals and clients have different interests in and information about quality. Complex relationships between funders and service providers, and multiple accountabilities explain confusion about the means and ends of performance reporting.

Accountability is an ambiguous concept and different definitions lead to confusion about the purpose and nature of performance reporting. Conformance and compliance is an audit perspective. Continuous improvement is an evaluation perspective. Accountability for performance seeks a balance between audit and evaluation (Barrett 1997a & 2000). Responsibility is an audit perspective for control. Responsiveness is an evaluation perspective for improvement (Barzelay 1997).

Performance reporting is a mechanism for policy coordination, to reduce the gap between policy objectives and results achieved by autonomous agencies and contracted service providers. Performance reporting is also central to quality improvement initiatives including TQM, quality assurance, benchmarking and client service charters. Funders, service providers, professionals and clients share responsibility for performance but have different interests in quality. Service providers have to balance responsiveness to the political priorities of governments who fund services and responsiveness to the needs of clients.

Federalism fragments program responsibility between different levels of government and separates funding agencies and service providers, and complex accountability relationships for public services create accountability traps (Uhr 1989). Market-type mechanisms and business models of performance management change accountability relationships. The accountability paradox identifies the tension between political control for responsiveness to policy priorities and managerial autonomy to improve responsiveness to the needs of clients in service delivery. Responsiveness to the political priorities of elected officials and responsiveness to clients needs pull service providers in different directions and require different performance information. Contractualism fragments service delivery, adding another layer of complexity to accountability relationships and policy coordination in a federal system (Davis & Rhodes 2000). Great faith is placed in performance reporting to improve accountability and service delivery.

NPM has been described as a 'cultural revolution' by academic observers and practitioners responsible for implementation (Yeatman 1987; Considine 1988; Codd 1991; MAB-MIAC 1992; Keating 1998). However, change has been evolutionary over more than three decades (Wanna, Kelly & Fortser 2000). The next section examines this historical context. Three phases identified from the detailed chronology in Appendix D are summarised in Table 2.1 over the page. Parties in government and Prime Ministers have influenced reform and elections have triggered structural and policy change (Davis *et al* 1999). However the shift from public administration to performance management and contracting has transcended short election cycles and the terms of executive government. The next section examines the path of change that explains the growth in performance reporting.

Table 2.1
Context: Election Cycles, Prime Ministers and APS Reforms

| Election Cycle | Ministry | Reports, Administrative and Legislative Reforms |
|--|---|--|
| PHASE 1: L'ANCIEN REGIME – AMINISTRATIVE LAW REFORM | | |
| 1972-1974 (May) | First Whitlam Labor Government | |
| 1974-1975 (Nov) | Second Whitlam Labor Government | RCAGA established (1974) |
| 1975-1977 (Dec) | First Fraser Conservative Coalition Government | RCAGA <i>Coombs Report</i> (1976) Administrative Appeals Tribunal Act 1975 Ombudsman Act 1976 |
| 1977-1980 (Oct) | Second Fraser Conservative Coalition Government | Administrative Decisions (Judicial Review) Act 1977 |
| 1980-1983 (Mar) | Third Fraser Conservative Coalition Government | Freedom of Information Act 1981 |
| PHASE 2: MANAGERIALISM – PERFORMANCE MANAGEMENT | | |
| 1983-1984 (Dec) | First Hawke Labor Government | FMIP performance management framework: Corporate Planning Program Management & Budgeting (PMB) Program Evaluation |
| 1984-1987 (Jul) | Second Hawke Labor Government | |
| | | <i>Not Dollars Alone</i> (HRSCFPA 1990) |
| 1987-1990 (Mar) | Third Hawke Labor Government | |
| 1990-1991 (Dec) | Fourth Hawke Labor Government | |
| 1991-1993 (Mar) | First Keating Labor Government | <i>The Australian Public Service Reformed</i> (FMIP Evaluation Task Force Report 1992) |
| PHASE 3: CONTRACTUALISM – MARKET TYPE MECHANISMS | | |
| 1993-1996 (Mar) | Second Keating Labor Government | <i>NCP Hilmer Report</i> (1993) COAG National Competition Policy Agreements (1995) |
| 1996-1998 | First Howard Conservative Coalition Government | National Commission of Audit Report (1996) Performance Improvement Cycle (PIC) introduced for 1997-98 budget Financial Management and Accountability legislation 1997 <i>Beyond Bean Counting: Effective Financial Management in the APS</i> (MAB 1997) |
| 1998-2001 (Nov) | Second Howard Conservative Coalition Government | Accrual-based outcomes and outputs budgets from 1999-2000 Public Service Act 1999 |

2.2. A long march from Coombs

Responding to the individual needs of clients has been an enduring theme in public management reform in Australia for almost three decades. New accountability mechanisms have been introduced to make providers more responsive to the needs of

clients. However, change has been episodic and the means has changed from administrative law remedies to quality management techniques from business and, more recently, market-type mechanisms.

Changing the culture of agencies responsible for delivering public services has been an explicit objective of reform for three decades (RCAGA 1976; MAB-MIAC 1992; MAB 1987). The origins of administrative reform have been traced back to the Whitlam Government's two short terms in office from 1972 to 1975 (Wilenski 1986; Zifcak 1994). In 1974 the Government established the Royal Commission into Australian Government Administration (RCAGA), to undertake the first comprehensive review of public administration. The Commission set a new standard of inquiry with a secretariat and research section of more than 70 staff, 50 projects commissioned from consultants, five task forces and three advisory bodies. The final Report, delivered to the Fraser Government in 1976, provided a comprehensive blueprint for administrative reform based on fundamental principles of democracy, efficiency and equity (Wilenski 1988). Wilenski (1988, 184), a key participant, described the RCAGA as a "text book case of non-implementation", attributed primarily to a lack of political will.

The Coombs Report devoted an entire section to the issue of 'responsiveness in administration' and was critical of service providers (RCAGA 1976 Section 6.3). The Report stated (RCAGA 1976, 137):

... we consider officials can and should make a better job of listening to members of the community, of advising their minister on what they hear and responding to it themselves.

The emphasis in the recommendations was on accountability, managerial skills for public servants, and more efficient and responsive service delivery. An appendix, *The Public Service and Political Control*, prepared by Dr Hugh Emy, recommended a new system of 'accountable management', giving greater autonomy for departments in allocation and use of financial resources, but subject to powerful accountability in the form of monitoring and auditing processes.

Wilenski (1988) described the 1970s as a decade of administrative reform inquiries. However an enduring legacy of this period is what was then described as 'new

administrative law' which opened the public sector to greater scrutiny and direct accountability to the public.

2.2.1 L'Ancien Régime: administrative reform

Between 1968 and 1973, three separate Committees (Kerr, Bland and Ellicott) examined administrative law reform (Brennan 1998). These reports recognised that existing avenues of redress for citizens having problems with administrative actions and decisions were complex, expensive and difficult to access. In response to the recommendations in these reports the Commonwealth established new review tribunals and the Commonwealth Ombudsman's Office (Smith 1998; CO 1997b).

Legislation commencing with the *Ombudsman Act 1976* and culminating in the *Freedom of Information Act 1981* enshrined new accountability mechanisms in administrative law. The intent of these mechanisms was to make government more responsive to individual citizens (Simms 1999). Judicial power as a balance to bureaucratic power emphasised procedural fairness and external review (Wilenski 1988). The legislation set standards for fair administrative processes in public agencies and established avenues of complaint and redress for individuals (Brennan 1998). The Administrative Appeals Tribunal (AAT) provided citizens with direct access to review of decisions. The Commonwealth Ombudsman (Ombudsman) was established to provide protection for individuals against administrative power through the investigation of complaints (Smith 1998). Prime Minister Fraser articulated the role of the office as "directed toward ensuring the departments and authorities are responsible, adaptive and sensitive to the needs of citizens" (CO 1997b, 10). The Ombudsman does not have determinative powers, and its jurisdiction does not cover citizens as third parties to contracts (Smith 1998).

The basic premise of new administrative law is that the public interest is best served by equity defined as procedural fairness. The effect was to open the public service up to external scrutiny and increase accountability of public agencies directly to clients as citizens (MAB-MIAC 1993b). However, critics of the growth in administrative review bodies argued that these were time consuming and focused on process at the expense of results or outcomes.

The election in 1983 of the Hawke Government was the trigger for a second phase of reform, which shifted the focus from administrative processes to performance management. The Hawke Government brought to the Treasury benches a comprehensive manifesto for change (ALP 1983). The policy drew in part on the Coombs Report (RCAGA 1976) and the 1976 Review of Commonwealth Administration headed by businessman John Reid (Davis 1989). In a decade of substantive and sustained reform from 1983, a new model of public management displaced public administration (Hughes 1994 & 1998; Barrett 2000). The language of management signalled a change in emphasis from administrative processes to results and reflected the transfer of techniques from business to public services (McGuire 1989; Keating 1990; MAB-MIAC 1992; Wanna, O'Faircheallaigh & Weller 1992; Wettenhall 1997).

2.2.2 Managerialism: corporate planning and program budgets

The principles for performance management were clearly articulated in two policy white papers (Commonwealth 1983 & 1984). An explicit objective was to change the culture of public agencies by changing accountability from inputs and processes to results, and to link program funding to outputs and outcomes. The central reform program, the Financial Management Improvement Program (FMIP), was described as the public sector reform alternative to privatisation and contract-based management (MAB-MIAC 1992). Corporate planning introduced the language and techniques of business to achieve "results in terms of outputs and outcomes and value for money" (Keating 1996, 4). The main objective was to increase the accountability of public agencies to ministers, Cabinet and Parliament, while also improving performance. The FMIP sought greater transparency in program management, improved evaluation of programs against program objectives and a client-oriented culture for public service delivery.

A central plank of FMIP was integrating policy and service delivery by linking corporate planning and performance evaluation to budget coordination (MAB-MIAC 1992). Programs became the basis for resource allocation decisions. Program Management and Budgeting (PMB) introduced the disciplines of defining policy aims and objectives, program structures and determining appropriate performance indicators for evaluation (MAB-MIAC 1992). Responsibility for resource management was devolved to agencies. Consistent with the trend to devolve responsibility for improvement, agencies adopted a

bottom up approach to quality management and implemented a wide range of initiatives (Trosa 1996).

The quid-pro-quo for devolution of authority was new accountability mechanisms to monitor and report on performance, including client feedback (APSB-DoF 1986; MAB-MIAC 1992; MAB-MIAC 1993b). There was a fundamental shift from traditional financial accountability for budget expenditure to accountability for results. However, efforts to link program evaluation and performance monitoring to budget reporting were impeded by inadequate performance indicators, in particular for quality (MAB-MIAC 1992 Chapter 8).

Twin agendas of strategic policy control and managerial autonomy for resource management were reflected in the new language of 'managing for results', which required a balance between devolution to 'let the managers manage' and performance reporting to 'make the managers manage'. Ministerial control over the public service was a key objective of the FMIP (Wilenski 1986; Codd 1991). The new approach to management was characterised as 'results-oriented', based on a shift in emphasis from compliance to a greater degree of performance control (DOF 1984; MAB-MIAC 1992).

Under the FMIP there was a fundamental shift from traditional financial accountability for budget expenditure to results, defined as service outputs and program outcomes (MAB-MIAC 1992). Corporate planning brought business planning techniques to the public sector, and budgetary reforms required agencies to develop performance measures and evaluation strategies. Portfolio budgeting, strategic planning and program evaluation techniques changed accountability relationships. Accountability changed from reporting on resources and inputs to cost-effective outcomes and results (MAB-MIAC 1993). Responsibility for improving service delivery was devolved to agencies and a wide range of quality initiatives were implemented (MAB-MIAC 1992). Performance reporting was a counterbalance to the devolution of responsibility, for resource management, from central agencies to departments and service delivery agencies (Keating 1990).

Two reviews of the FMIP supported the shift to a results orientation and the changes in public accountability processes. A parliamentary report, *Not By Dollars Alone*, supported the program's central objectives and recommended greater emphasis on

effectiveness in performance information (HRSCFPA 1990). In response to a recommendation in this report, the MAB commissioned a major evaluation of the impact of the FMIP. A Task Force on Management Improvement was established in April and reported in December 1992 (Sedgwick 1995). Whilst not on the scale of the RCAGA, the final report, *The Australian Public Service Reformed: An Evaluation of a Decade of Reform*, ran to 600 pages and included surveys of staff, agencies and clients (MAB-MIAC 1992). This self-styled 'stocktake of the last decade of reform' found that corporate planning was substantially more advanced than performance reporting, and reiterated Parliament's concerns about the slow pace of development of performance monitoring and the adequacy of performance information (MAB-MIAC 1992, 501). Echoing observations in the Coombs Report, the Task Force identified performance information and responsiveness to clients as major challenges requiring further reform.

As Davis (1989) predicted, corporate management was a staging post in the transition rather than a destination. In a third phase of reform, the approach to performance management shifted to competitive tendering and contracting (CTC). The language of economics displaced management as the emphasis shifted from corporate planning and portfolio budgeting to contracts and contestable delivery of public services (Reith 1996; Kemp 1998; Davis & Rhodes 2000). The 1990s could be described as the decade of structural reform of public service delivery, driven by a microeconomic reform agenda that gained momentum in the 1990s and culminated in an historic agreement on National Competition Policy (NCP) between the Commonwealth and States through COAG (Davis 1997a). A central pillar of this third phase was a new resource management framework based on 'outcomes and outputs budgets' (Wanna, Kelly & Forster 2000).

2.2.3 Contractualism: Market-type mechanisms, and outcomes and outputs budgets

CTC has to be understood in this broader context of microeconomic reform to open the economy, including the public sector, to competition (Quiggin 1996a; Argy 1998). In 1992, the Keating Government appointed Professor Fred Hilmer, an economist from the Australian Graduate School of Management, to chair the Committee of Inquiry into National Competition Policy. The central thrust of the Committee's 1993 report was to make GBEs more like private firms, and to create a 'level playing field' for competition between public and private enterprises. COAG accepted the principle recommendations

and the *National Competition Policy Act 1995* made inevitable the application of CTC to all levels of government and all sectors of the economy (IC 1996; Quiggin 1996b; Scales 1998).

The election of the Howard Government in 1996 accelerated the trend to contracting and was trigger for a new approach to performance management in Commonwealth agencies and federally funded programs. The Prime Minister immediately convened a National Commission of Audit (NCA) to examine Commonwealth Government finances and recommend efficiencies. The Chairman, Professor Bob Officer from the Melbourne Business School, had chaired an earlier Commission of Audit for the Kennett Government in Victoria in 1993. Other members of the Commission came from business and consulting firms, while research and administrative staff were provided from the Department of Finance. The report was highly critical of government service provision, arguing that there was significant scope for efficiency improvements and recommended the broad application of CTC (NCA 1996). Nine areas for reform were identified including education, health and community services.

The Government's response to this report was outlined by the Minister Assisting the Prime Minister for the Public Service. A discussion paper *Towards a Best Practice APS* outlined the government's intention to change to (Reith 1996, 8):

"a new emphasis on contestability of services and outsourcing functions, the private and non-profit sector can undertake better".

The MAB Report, *Beyond Bean Counting: Effective Financial Management in the APS*, set out the Howard Government's new agenda for performance management based on best practice in business (MAB 1997). The Government's commitment to introduce choice and competition was implemented through CTC and the Performance Improvement Cycle (PIC) introduced for 1997-98 budget cycle. The PIC is a four step process for agencies to review activities and decide which to retain, and which fall outside the Commonwealth domain and should be devolving to a more appropriate level of government, privatised or discontinued. Finance developed implementation guidelines for agencies that recommended management improvement tools included benchmarking, contracting to other agencies, competitive tendering and purchaser-provider arrangements (DoFA 1998a; DoFA 2001a). Benchmarking and service charters were identified as quality initiatives to improve accessibility, transparency and

responsiveness of Commonwealth agencies. A 'purchaser-provider' model is one of government purchasing specified outputs from agencies, public and private, to achieve outcomes (MAB 1997, 9).

A package of legislation facilitating devolution of financial management took effect from 1 January 1998. *FMA Act 1997* introduced a new accountability framework for departments, agencies and GBEs. The *Auditor-General Act 1997* gives the Auditor-General wide scope to conduct performance audits of all commonwealth public agencies except GBEs. According to the Finance website, this legislation (DoFA 2001a):

... strikes an appropriate balance between devolution of management responsibility and the need to hold managers accountable for their performance.

CTC compels agencies to specify program outputs and outcomes, and changes the focus of accountability from internal evaluation to external audit (Zifcak 1997). As a direct consequence, there has been significant growth in performance reporting. Separating funding and service delivery, contracting and competition between service providers is the preferred strategy of the Howard Government (MAB 1997; Kemp 1997; Moore-Wilton 1999a). Markets are the preferred method of allocating public resources, and where this is not feasible, substitutes for competition such as benchmarking are to be applied (Davis 1997a). Client responsiveness is achieved by choice, and wherever possible the road to choice is by transferring functions to the private sector (Kemp 1997a). Where services are retained by the public sector, benchmarking performance and improvement targets are the preferred technique for improving responsiveness to clients. Commonwealth Government Service Charters, the first centrally coordinated service quality initiative for APS agencies, were announced in March 1997.

Since the onset of reform in 1984, Australia has explicitly grappled with the balance between program effectiveness or outcomes and service delivery or operational effectiveness, by seeking to integrate management improvement and budget reform. Performance reporting is the essential link between 'letting managers manage' and 'making managers manage' (MAB-MIAC 1992, 326). The Public Service Commissioner (PSC) (1998, 3) in the first *State of the Service Report* reiterated the theme:

balance between devolution and accountability is of central importance in achieving a highly performing, professional public service.

According to the Secretary of Prime Minister and Cabinet (PM&C), CTC shifts the balance to a greater emphasis on performance and results, while maintaining the appropriate requirements for probity, compliance and good process. Managing for results is now reliant on "developing robust indicators to assess performance in terms of outcomes for clients" (Moore-Wilton 1999b, 3).

The new language of managing for results is 'outcomes and outputs' (Moore-Wilton 1999a, 3). CTC has resulted in greater participation by the private sector in providing a wider range of public services. In the words of the Auditor-General, "the APS has been steadily evolving towards a more private sector orientation", reflected in outsourcing functions and greater use of private sector methods and techniques, "to ensure a greater orientation towards outcomes" (Barrett 2000, 2).

A pattern is evident in the changes in accountability processes since 1976. Administrative law reform in the 1970s introduced direct accountability to clients for processes. Corporate management shifted the focus to accountability for results, but relied on internal evaluation and performance reporting. Contracting has changed the emphasis to external monitoring and audit. Performance reporting has replaced corporate planning as the main coordination or steering mechanism. Devolution has given agencies more flexibility to develop their own rules to suit program needs.

The official accountability for performance story, under the rhetoric 'managing for results', is really two stories. 'Make the managers manage' is the audit story that requires agencies to comply with budget requirements imposed by central funding agencies. This has been reflected in the growth in efficiency and performance audits, and in performance reporting on results or outcomes in the budget papers. 'Let the managers manage' is the devolution story that gives agencies greater responsibility for resource management, to improve productivity and quality for 'cost-effective' service delivery. This has been reflected in the growth in performance reporting on services delivered, or outputs. There has been a clear shift in performance reporting from internal evaluation to external monitoring. As the official reports recognise, balancing audit and performance imperatives is not easy.

As discussed in Chapter 1, Australia is part of an NPM policy community that has shared ideas and experiences. Since 1990, the OECD's Public Management Committee (PUMA) reports, on public management developments in member countries, have supported managerial reforms including service quality initiatives (see Appendix F). Policy transfer, reflected in commonality of purpose and the language of economics and business, is evident in official documents (Kettl 1994 & 1998; Zifcak 1994; Walsh 1995). Despite drawing from a similar toolkit influenced by private sector techniques, significant differences country contexts have resulted in divergent reform paths (Pollitt & Bouckaert 2000). One explanation of variation is the timing and sequence of change discussed above. Another explanation is country specific institutional constraints. In Australia these are a Westminster system of responsible parliamentary government, the distribution of power in a federal system and a tradition of public provision of social welfare services (Davis 1997).

Ideas need promoters with authority to influence and implement reform (Schick 1999). Reform in Australia has been driven from central agencies by technocratic concerns rather than political ideology (Wanna, Kelly & Forster 2000). The next section introduces the central agencies that have shaped policy and implementation of performance management and contracting for public services.

2.3 The pragmatic Australian way

Policy has been clearly set out in White Papers and Reports, and central agency guidelines have established the frameworks for implementation (Davis 1995). Three central agencies shaped the path of change from evaluation to audit and measurement. A troika of three powerful agents of reform, Finance, the Audit Office and the PC, explain the ascendancy of the productivity imperative, and of external performance reporting and measurement. Responsibility for coordinating management improvement initiatives has been shared between Finance and agencies in the PM&C portfolio, in particular the MAC and its predecessor the MAB.

The language of the key reports and guidelines has consistently stressed the need for balance between accountability for control, and devolution for performance improvement. Whilst speeches and policy documents advocated balance, implementation guidelines reflected the concern of the particular agency. An

independent Auditor-General, supported by the resources of the Audit Office, provides objective assessments to parliament of publicly funded programs, in the form of financial and performance audits. Finance concentrated on financial management and accountability for results in the context of strategic control of budget resources. PC/IC is a powerful advocate for microeconomic reform and the primacy of the productivity imperative in judging the success of publicly funded programs. MAB was the key advocate for management improvement and its publications were intended to encourage a best practice philosophy in the APS.

2.3.1 Central agencies shaping policy frameworks and implementation guidelines

Australian National Audit Office (Audit Office) and the accountability agenda: The Auditor-General and the Audit Office, as the custodians of public accountability, is independent of the executive and reports directly to parliament (Barrett 2000). As resource management was devolved to portfolio heads, new controls under the rubric of 'accountability for performance' have been imposed. This has been reflected in an expanding role for the Audit Office, culminating in the 1997 legislation (Barrett 1992, 1997b & 2000). This legislation gives the Auditor-General wide scope to conduct performance audits of Commonwealth agencies, but not GBEs or non-government agencies contracted to deliver public services. The Audit Office has also been instrumental in the joint development of implementation guidelines (ANAO 1996a & 2001). A shift in focus from compliance and conformance to identifying performance improvement is reflected in 'Better Practice Guides' (Barrett 2000).

Department of Finance (Finance) and the budget agenda: Created by a split in the Treasury functions in 1976, the Department of Finance (DoF) became an independent central agency with a distinct culture and functions (Wanna, Kelly & Forster 1996). A separate Minister in the Cabinet, and a secretariat for the powerful Expenditure Review Committee (ERC), enhanced the status of Finance as the prime manager of the Commonwealth's finances and resources (Wanna, Kelly & Forster 2000). In the restructure following the election of the Howard Government, became the Department of Finance and Administration (DoFA), with additional responsibilities that included the coordination of Service Charters.

Finance captured control of the performance management agenda through budget reform (Schick 1999; Wanna, Kelly & Forster 2000). Initially interest was on

expenditure control and new budget processes, to balance the devolution of resources management to agencies. From 1986-87, interest changed to program evaluation and value-for-money performance measurement (Wanna Kelly & Forster 1996). In the contractualism phase, Finance has been the key driver of change in setting the guidelines for implementation of CTC and for performance reporting under the outcomes and outputs budget framework (Wanna, Kelly & Forster 2000).

Finance initially shared responsibility with the PSB for coordinating implementation of the FMIP. However, with devolution of responsibility for staffing resources to agencies and demise of the PSB, Finance emerged as the lead agency in shaping implementation of the FMIP (Wanna, Kelly & Forster 2000). Whilst Finance has supported a client perspective in developing improvement strategies (DoFA 1998a), the policy focus was on strategic control of financial and resource management to reflect government priorities. Performance evaluation and monitoring by central agencies is intended to reassert strategic control over budget processes (Painter 1987). The FMIP emphasis was on program budgets to align goals and activities (Davis 1995).

Management Advisory Board (MAB), Management Advisory Committee (MIAC) and the management improvement agenda: Central financial control has been mirrored by the devolution of responsibility for management improvement, including quality initiatives to agencies. After the demise of the Public Service Board (PSB) in the July 1987 restructure, responsibility for policy advice and coordinating management improvement was transferred to a new MAB. Established under the Public Service Act, MAB is an advisory body with no executive responsibility. MAB brings together representatives of central agencies and operating departments (Codd 1991). The Secretary of the Prime Minister's Department also chairs MAB, positions both held by Dr Michael Keating from 1991 to 1996, and Max Moore-Wilton from 1996 to 2002. Membership of MAB included the Secretary of the Department of Finance and Industrial Relations, the Public Service Commissioner and five members nominated by Prime Minister from other departments, the private sector and unions.

MAB had no dedicated supporting staff and most of its work was undertaken by the MIAC subcommittee, which replaced the FMIP Steering Committee in December 1989 (HRSCFPA 1990, Barret 2001b). The MIAC was established to advise MAB on management issues and initiatives in the APS. Chair of MIAC was a Deputy Secretary

from an operating department, and membership included senior officers for a range of departments. MIAC was responsible for a major evaluation of APS reform in 1992, *The Australian Public Service Reformed: An Evaluation of a Decade of Management Reform* (MAB-MIAC 1992).

Reports in MAB-MIAC publication series are best practice guidelines for management in the APS, including *The Better Practice Guide to Quality in Customer Service* (MAB-ANAO 1997). However, the shift to contractualism changed MAB's focus. *Beyond Bean Counting: Effective Financial Management in the APS – 1988 and Beyond* (MAB 1997) reported on a benchmarking survey of best practice financial management which "confirmed the view that Commonwealth financial management practice is behind best practice exhibited in the private sector" (MAB 1997, forward). In 1998, MAC replaced MAB. The first MAC publication, *Performance Management in the Australian Public Sector A Strategic Framework* (MAC 2001), continues the theme of the centrality of performance reporting in linking strategic planning, outcomes and outputs budgets and management improvement.

The Ombudsman is also located in the PM&C portfolio and has also been active in management improvement in the APS. Since 1982 the Office has also investigated complaints about agencies' handling of requests from the public under the FOI Act. As an advocate for citizens rights, the Ombudsman deals with individual cases and personal experiences, but also reports and makes recommendations on the underlying practices and procedures (Smith 1998). However, its jurisdiction does not cover citizens as third parties to contracts. The Ombudsman has played a role in the development of service charters, the Case in Chapter 7.

Productivity Commission (PC) and the competition agenda: Located in the Treasury portfolio, the PC is the pre-eminent agency advising the Commonwealth government on microeconomic reform. Created in 1996 by the Howard Government, the PC carried forward the mantle of its predecessor, the Industry Commission (IC), whose analysis and advice supported the microeconomic reform agenda of successive governments from the 1970s (Quiggin 1996). The PC is an independent agency and its policy advice is based on transparent consultative processes of public inquiry and reporting (Banks 1998 & 1999a; PC 1998a). Reports by the IC (1995a & 1996) set out the guidelines for applying NCP to public services. The PC applies a public economics framework,

developed for evaluating industry assistance, to social infrastructure services and the social dimensions of public policy (Banks 1999a). The Commission's role is not confined to advice, and in its capacity as chair and secretariat for the SCRCSSP, the case in Chapter 6, it has had a major influence on performance reporting.

Together these agencies have shaped the implementation of performance management and the broad application of contracting to public services. A marked change is evident in policy frameworks and implementation guidelines since 1983, as the language of business has been transferred to public services. Changing from administration to management emphasises results over bureaucratic process (Davis 1989). Shifting from managerialism to contractualism does away with the 'public' in management (Davis 1997a).

2.3.2 Ideas from business and economics

Hood (1991, 5) described NPM as a "marriage of opposites" and identified two different streams of ideas, 'new institutional economics' and 'business-type managerialism'. New institutional economics generated reforms based on the transfer of market-type mechanisms to public services. The principal-agent model of accountability, developed to understand private contractual relationships, has been transferred to relationships between agencies responsible for funding and providing public services. Managerialism generated reforms based on the idea of transferable management expertise, discretionary power to achieve results and measurement of outputs. Managerialism was the more powerful influence on public management reform in the second phase from 1983. Economic rationalism, in particular contracts and performance measurement, dominated the reform agenda in the third phase from 1993.

Managerialism: business management techniques and private sector benchmarks:

Pollitt (1998, 56) argued that one of the most striking features of managerial texts is the "businessification of the language of public administration", and identified four assumptions in managerial speeches and texts:

1. public sector organizations are in need of reform;
2. a body of proven management ideas and techniques is available to guide the reform process;
3. greater efficiency is desirable and will flow from applying these techniques; and.
4. defining citizens as consumers or customers is progressive.

Finance embraced the philosophy of managerialism from the outset (Keating 1989 & 1990; Holmes 1989; Barrett 1992; Sedgwick 1996b; Boxall 1998a). Michael Keating, Secretary of Finance from 1986 to 1991 and then of PM&C from 1991 to 1996; and, Pat Barrett, who moved from Finance to become the Auditor-General, were strong advocates for managerialism.

Managerialism is not a coherent theory. As Carter (1998) suggests, managerialism contains two fundamentally conflicting arguments. The first is managerial control, expressed in the powerful metaphor "make the managers manage". The second is managerial autonomy, expressed in the powerful metaphor "let the managers manage". Decentralisation or devolution of responsibility from the centre enables service providers to be more responsive to the needs of clients. Kettl (1996, 259) argued:

The cutting edge reform in the early 1990s has been the development of performance management systems in which operating managers are given greater discretion in return for accountability to top officials for performance against agreed indicators.

Managerialism is an ideology, rhetoric or doctrine and a set of techniques or practices (Pollitt 1990a; Hood 1991; Hughes 1992). As an ideology, managerialism is based on two assumptions (Palmer 1998):

1. Private sector techniques are inherently more efficient and should be applied to public sector activities.
2. Management is a universal activity and the context is of secondary importance to the specific techniques.

The appeal of managerialism is in the techniques (Pollitt 1990a). Benchmarking, Balanced Score Card (BSC), TQM, quality assurance and customer service initiatives are just some of the techniques developed by consultants in the context of business management that have been applied to agencies providing public services. The influence of managerialism is explicitly acknowledged (MAB-MIAC 1992) and reflected in policy statements and guidelines (see Appendix D).

A robust debate between academics and practitioners in the *Australian Journal of Public Administration* focused on these two assumptions (Considine & Painter 1997). Painter (1987) describes how managerialism invaded the public service to reassert

political control. The mechanisms involved were budget reform and corporate planning. Wettenhall (1997) examined the influence of business consultants and MBA trained senior bureaucrats, in bringing the ideas of business to managing the APS and to the delivery of public services. Pussey's (1991) study documented the rise of what have Self (1976) labelled pejoratively 'econocrats'. There has been no equivalent survey of the spread of business management techniques from MBA programs.

Practitioners responsible for implementing reform in Australia explicitly acknowledged and defended managerialism (Holmes 1989; Keating 1989; Barrett 1992). They argued managerialism can and does improve public sector management, and reforms can and do take into account the special character of the public sector. The most trenchant critics of managerialism have been academics who argue that management methods are borrowed from the private sector without considering essential differences in the public sector context (Corbett 1996; Mintzberg 1996). As Corbett contends (1996, 249):

"both sides in this vigorous debate hold an important part of the truth and neither side will admit the other is saying something quite reasonable".

Critics of the transfer of business techniques under the guise of managerialism argue that managing services in the public sector is fundamentally different to managing services in the private sector (Allison 1979; Walsh 1995; Corbett 1996). The differences are attributed to political authority, multiple stakeholders with conflicting objectives, the nature of coordination and public accountability (see Appendix C), and this limit the transfer of managerial techniques to public services (McGuire 1989).

A clearly articulated philosophy of managerialism and consumerism has driven public management reforms in many OECD countries (Kettl 1994; Pollitt 1990a; Walsh 1994 Schick 1999). However, this philosophy reflects a mix of economic rationalist policy prescriptions and rationalist techniques of strategic management, transferred from the experience of private business in competitive markets. The transfer of strategic management prescriptions (McGuire 1989) predates new institutional economics but arrives at similar conclusions about clear goals and performance reporting relationships (Davis 1997b).

Economic rationalism: new institutional economics: Ideas from economics are reflected in the microeconomic reform agenda, which gives primacy to competitiveness to improve productivity growth and enhance living standards (O'Neill & McGuire 1999). The idea of market discipline is reflected in the recommendations and advice of the IC/PC (1995a, 1996 & 1999b) to introduce choice and contestability as the 'first best solutions', and 'yardstick competition' where competition is not possible.

A second set of ideas, from new institutional economics, that have shaped public management reform are public choice and agency theory (MAB-MIAC 1992; Davis 1996; Althaus 1997). Agency theory is a particular strand of public choice theory, and its influence is reflected in key reports and policy documents (NCA 1996, IC 1996). Agency theory originally dealt with the problem of separation of ownership from management in private corporations and capture by sectional interests (Donaldson 1991). The central concern is the loss of managerial control over agents by principals (Althaus 1997).

Agency problems are explained by goal divergence, or different interests, and incomplete or asymmetric information. A two-fold solution of contracting and performance reporting is proposed. In theory contracting separates and clarifies roles and responsibilities, and performance reporting improves information flow from the agents to the principals. Purchaser-provider arrangements, a variation of the principal-agent model, that seek to separate political responsibility of government purchasers for policy outcomes, and managerial responsibility of providers who deliver specified services to achieve designated outcomes. Performance reporting is a mechanism for control over service providers (Bouvaird 1996).

Contracting service delivery is based on the logic of what is described as the 'purchaser/provider split'. Government is the purchaser of public services, sets policy outcomes on behalf of the community, specifies contract conditions and regulates agreements in the public interest. Purchaser-provider arrangements are included under the rubric of 'market-type mechanisms' that introduce competition or contestability for service delivery. A fundamental feature of new institutional economics is the centrality of markets and exchanges, based on negotiated contracts between principal and agents (Simon 1991). Contract incompleteness is explained by incomplete or asymmetrically distributed information (Simon 1991).

Quiggin (1996b) explains two a priori reasons why contracting might lead to reductions in quality. First there is the incentive for governments to reduce quality and costs by contracting. Secondly there are incentives for private contracts to provide minimum service. Specification of quality and performance reporting are the means to overcome these perverse incentives.

These ideas have also been subjected to criticism, mainly by academics (Self 1976 & 1993; Stretton & Orchard 1994). Pusey (1991) describes the ascendancy of economics in central agencies instrumental in the implementation contracting, competitive tendering and output budgeting. A fundamental criticism of the application of managerialism and economic rationalism under the rubric of NPM is the attempt to displace politics from managing public services (Zifcak 1994; Considine and Painter 1997).

The respective merits of managerial and contractual approaches are related debates. The managerial debate is about whether 'best practice' is to be found in the private sector. The contractual debate is about the best way to provide public services to the community. Contracting and competitive tendering represents an attempt to shift from administrative or managerial allocation of services and to market allocation (Stretton & Orchard 1994). Economists argue for market allocation and distribution on the grounds of efficiency. The argument for administrative or managerial allocation is on the grounds of equity (Stretton & Orchard 1994). This is a fundamental clash of values (Wilenski 1986) that is reflected in different perspectives on the purpose of public services (Stretton & Orchard 1994).

2.3.3 Performance management and a principal-agent model of accountability

A pragmatic mix of ideas about performance management from business, and ideas about contracting from economics have driven reform at the Commonwealth level. However, the impact has not been confined to the APS, and reform has encompassed publicly funded welfare services delivered by state, territory, local government, community sector and private agencies. The Commonwealth has applied new accountability mechanisms to program funding in SPPs and service agreements. The problem for the Commonwealth, as 'funder' or 'purchaser' of services, is how to control agents – public, private or nonprofit. Two solutions are embodied in

performance management and contracting. The first is improving performance information between governments as principals and service providers as agents. The second is separating and assigning responsibility in complex service delivery networks.

Improving performance information was the focus in the managerialism phase and central agencies looked to business for performance indicators and information. Frameworks for performance management have been a key feature of implementation guidelines and evaluation reports and have appeared in various forms: 'Corporate and Program Management Cycle' (MAB-MIAC 1993a, 8); 'Performance Framework' (MAB 1997); 'Performance Management Framework' (MAC 2001) and 'Commonwealth Resource Management Framework' (DoF 2001a). Within these broad frameworks are more specific frameworks for improvement. In the current performance management framework the emphasis is on CTC. Contracting is based on the principal-agent model of accountability relationships which separates policy agencies from service delivery contractors or agents. Separation and performance reporting are supposed to prevent capture by agents or providers (Walsh 1995; Athaus 1997; de Carvalho 1997).

Managerialism assumes a rational technocratic approach to decision making. Economic rationalism assumes the separation of policy and management activities (Considine & Painter 1997). Contracting assumes that funding and service delivery can be separated (Davis, Sullivan & Yeatman 1997). The strategy is to reduce the role of government in service delivery by changing from direct provision to delivery by autonomous agencies. Economic rationalism assumes that competition and contracts will improve the efficiency, effectiveness and responsiveness of services to clients.

These ideologies represent a fundamental change in the role of government that has been described as a shift from welfare based on a 'providing' to welfare based on an 'enabling' (Deakin & Walsh 1996). Changing to accountability based on performance measurement and audit has been described as a shift from an 'enabling' to an 'evaluative' state (Henkel 1991). The shift from a providing to an enabling state (Deakin & Walsh 1996), reflected in the change from program to contract management, means that government is replacing direct controls with indirect control. It is compensating for the loss of direct control over service delivery by enforcing control

over resources through specification of outputs and outcomes, and performance monitoring.

However, in Australia's federal system of government, responsibility for funding and delivering public services is fragmented (Lyons 1994; Simms 1999). The Commonwealth is responsible for the largest share of funding (IC 1995a&b, SCRCSSP 1995a), but service delivery is fragmented in complex systems involving three levels of government and public, private and community agencies. This necessitates complex systems for public accountability, policy coordination and service delivery.

In summary, the Audit Office and Finance have been the lead agencies shaping the changes to accountability. A pragmatic mix of ideas about contracting from economics and performance management from business is evident in the key reports and implementation guidelines. As the Auditor-General explicitly states, the APS has been steadily evolving towards a more private sector orientation with contestability of services and outsourcing, and is adapting private sector methods and techniques (Barrett 2000a).

The general issue in this study is the universal application of concepts and technocratic frameworks to the particular contexts of public services. The issues around transfer relate to ambiguity in key concepts and the nature of relationships in public service contexts. A principal-agent model of accountability relationships relies on transparent performance reporting to overcome the problem of asymmetry. As discussed in Chapter 1, in contrast to the relative coherence of economic principles, management theory consists of contrary propositions about performance management that reflect different perspectives on basic concepts such as efficiency, effectiveness and responsiveness. A fundamental tension between rational and power-behaviour models of decision making in the strategic management literature pulls organisations in different directions (de Wit & Meyer 1994, Palmer & Hardy 2000). The next section examines the consequences of applying agency relationships and performance management frameworks to public services.

2.4 A question of balance

A federal system divides responsibility between governments, so in one sense purchaser-providers arrangements are not new (Keating 1996). However, contracting

increases the separation, as more agents are included in accountability relationships, and this fragments program responsibility among multiple contractors (Ryan 1995; Rhodes 1997). Separation between funding agencies and service providers is one explanation of implementation pitfalls, resulting from gaps between government policy and the outcomes delivered by agencies (Chalmers & Davis 2001). Performance monitoring is one way of reducing the gap between intentions and outcomes. So the success of contracting depends on clear lines of accountability and appropriate performance reporting.

Performance reporting is integral to accountability in agency relationships (IC 1996). One pertinent question is the role of performance reporting in balancing the twin agendas in managing for results. A second question is the particulars of the public services context.

2.4.1 Strategic control and managerial autonomy

There are two parts to the provision of public services. The first is policy decisions about the level of funding and access or eligibility. The second is distribution or service delivery. Economic theory separates allocation and distribution, and critics argue that productivity or efficiency goals displace effectiveness against social objectives (Self 1976, Stretton & Orchard 1994; Argy 1998).

As discussed, within the rhetoric of 'managing for results' there are two conflicting agendas (Keating 1989), and performance reporting has to balance

1. Accountability: strategic control to 'make the managers manage'
2. Performance improvement: managerial autonomy to 'let the managers manage'

Balancing managerial control and autonomy means different roles for performance standards and indicators (Carter 1998).

Accountability for performance is a strategy to centralise strategic control over scarce budget resources. Financial management is the system of control for budget resources and performance monitoring is the main instrument of accountability. Performance improvement relies on devolution of responsibility and authority for service delivery to agencies and program managers. Program evaluation is an internal accountability mechanism to provide a basis for judgements about efficiency and effectiveness so as to identify improvements. The focus is on improving the efficiency and effectiveness of

service delivery processes. Responsiveness to clients requires devolution as close as possible to the operational interface between providers and the individual clients using public services.

Performance reporting is expected to balance political control and managerial autonomy. In practice, two agendas in performance management create tension between control for strategic coordination and devolution for operational improvement and responsiveness to clients. This tension is recognised in management theory (de Wit & Meyer 1984; Palmer & Hardy 2000) and in public management (PUMA 1997d; MAB-MIAC 1992). Managerialism as expressed in key reports assumes management techniques are universal and best practice is the private sector (NCA 1996 Chapter 2; MAB 1997). However, critics in strategic management (Mintzberg 1994) and in public management (Self 1993 & Lynn 1996) point to ambiguity in the fundamental concepts and the significance of different contexts that managerialism ignores.

The conflict between responsiveness to clients and responsiveness to political priorities is recognised explicitly in official reports (SFPARC 1995; PUMA 1997d). As Davis (1995) points out, Cabinet is the forum which makes political and policy choices for the state; its decisions are the 'currency of administration'. A basic principle of management for results is delegation of responsibility for specific resources and accountability for their use in the pursuit of designated objectives (Gray & Jenkins 1993). In theory performance management creates a system of decentralised responsibility with an integrated system of control (Gray & Jenkins 1993, 62).

Performance reporting is the practical expression of accountability relationships. Transparent performance reporting is central to public accountability which is the fundamental difference between public and private services (Hughes 1994; Barrett 1997b). Purchaser-provider arrangements are one variant of the principal-agent model of accountability (Pollitt 1990a; Hood 1991). The key assumption is that performance reporting can serve the different interests of principles and agents (Radin 1998). Agency theory assumes that agreed objectives and transparent performance reporting against a balanced set of indicators overcome the problem of information asymmetry between principals and agents (PUMA 1994; DoF 1995; IC 1996; PUMA 1999b). In practice accountability relationships between multiple principals and agents are complex.

2.4.2 Accountability relationships for public services

Accountability frameworks are a fundamental difference between the public and private sectors (Hughes 1994). The Auditor-General is quite explicit (Barrett 2000, 18):

... openness and transparency are essential elements of public sector accountability and the public sector has to operate in the public interest.

Public agencies are accountable under public or administrative law, while private agencies are accountable under private or contract law (Mulgan 2000). Accountability is more transparent and stringent in the public sector (Barrett 1997b).

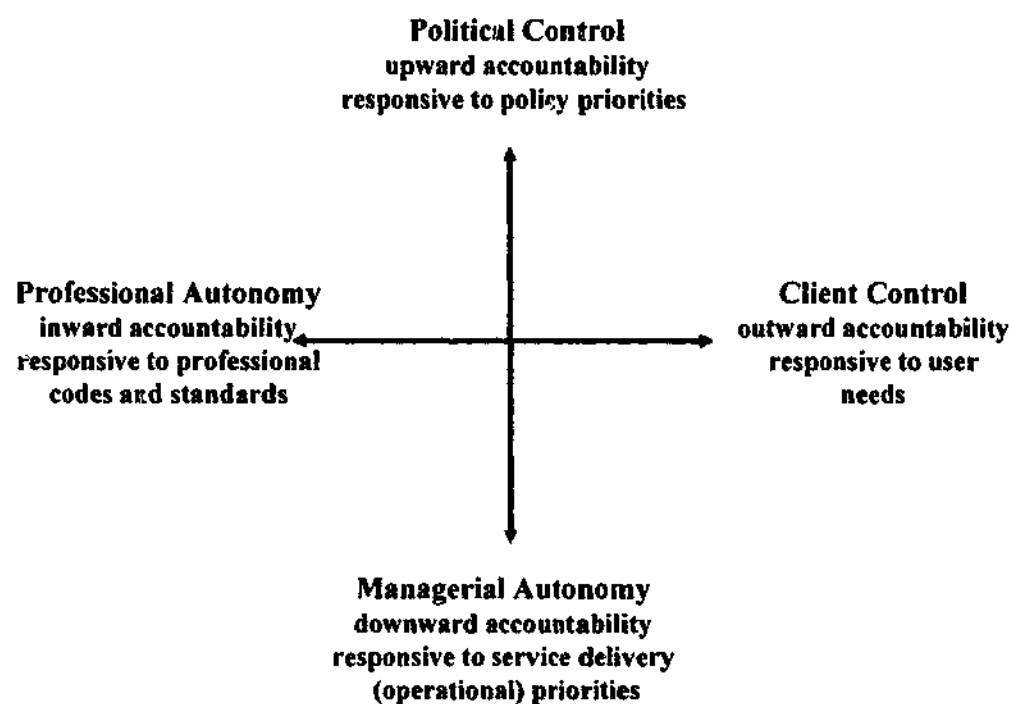
Public accountability raises two issues for performance reporting. One is the separation, and another is balancing what the Auditor-General describes as the 'accountability-performance dichotomy' (Barrett 2000, 19). As already discussed above, the separation of ownership (principals) and service delivery (agents) can result in what is called 'agency problems' for both public and private services. The problems are the relationship between the principal and the agent, and responsibility for performance (IC 1996). The basic notion of accountability is a principal-agent relationship "where the agent carries out tasks on behalf of principals and reports on how they have done" (Hughes 1994, 228). In practice however, there are fundamental differences between the public and private sector context. Principal-agent relationships are more complex in the public sector and this has implications for tests of accountability (Kettl 1994; IC 1995a; Myers & Lacey 1996).

Contracting increases the complexity of accountability relationships for public services. Multiple stakeholder relationships do not fit easily into the principal-agent model of governance. However, as Figure 2.1 over the page illustrates, there are two key relationships for public services. Provider-client relationships are one dimension of accountability and the issue is responsiveness to clients' individual needs. For services such as health, education and community care this interface is between professionals and clients. Customising services for quality is a strategic imperative in this relationship.

Funder-provider relationships are a second dimension of accountability, and the issue is political responsiveness to public policy priorities. Cost-effectiveness is a strategic imperative for budget-constrained public services. This conceptualisation of

accountability relationships opens up the potential for two sources of information asymmetry in accountability relationships.

Figure 2.1
Accountability Relationships



Source: Adapted from Figure 9.3 in Flynn, N. (1993) *Public Sector Management*.
Second Edition, New York, Harvester Wheatsheaf.

Funder-provider relationships - balancing political control and managerial autonomy: Accountability implies a relationship of authority and control (Mulgan 1997). Political accountability of the elected government through parliament to citizens is regarded as an essential element of democratic government and governance (Glynn & Murphy 1996; PUMA 1996c). In theory, the relationship is between parliament and citizens. In practice responsibility for policy and services embodied in publicly-funded programs is delegated to the elected government. Political accountability involves those with delegated authority being answerable to their fellow citizens (Day & Klein 1987, 2). The issue is political control of policy outcomes reflecting ministerial and parliamentary

priorities. Described as upward accountability (Corbett 1996), the basis of political accountability is legal rationality (Davis 1997a).

Managerial accountability involves "making those with delegated authority answerable for carrying out agreed tasks according to criteria of performance" (Day & Klein 1987, 2). Described as downward accountability (Corbett 1996), the basis of managerial accountability is technical rationality (Davis 1997a). Changing from administration to management has shifted the focus from compliance with rules to results.

Client responsiveness introduces outward or direct accountability (Corbett 1996) to citizens, defined as clients/consumers/users/customers. New administrative law opened the public sector to greater scrutiny and direct accountability to the public. Access to the Ombudsman gives clients a voice through mediation in resolving complaints. Charters are a new accountability mechanism that recognises the need for acceptable standards of service, independent monitoring, the opportunity to complain effectively and obtain redress for service failure (Reid 1992). Martin's (1997, 12) three sided model of 'performance-related accountability' adds external accountability to 'customers/consumers/clients' to internal managerial accountability for service delivery and external political accountability to parliament for policy outcomes. However, there is more, as accountability to clients introduces a second relationship into the matrix.

Professional-client relationships - balancing professional autonomy and client control: Responsiveness to the needs of clients has focused attention on service provider-client relationships. For many public services, the direct client interface is with professionals. The distinction between professional and managerial accountability is significant for this study. As Flynn (1993, 191), argues there is tension between managerial and professional values as professionals look outward to users. Henkel (1991), in the context of reforms in the UK, argued that performance management is a strategy to centralise strategic control over resources and to reduce the power and autonomy of professionals.

However, there is also inward accountability for professional standards and codes of conduct. Service providers are caught between the conflicting priorities of elected policy makers and clients (OECD 1987). Professionals who make decisions on access to

services and standards of care have to balance the conflicting pressures of quality and productivity.

Decentralisation and fragmentation of service delivery divides political authority, and increases the complexity of accountability structures. The question raised in this chapter is who is accountable for quality. This analysis suggests accountability is shared in two relationships between the four key agents depicted in Figure 2.1. Therefore, there is a balance to be struck in performance reporting between these different interests.

Whilst supporters of a purchaser-provider model of accountability relationships claim too much for performance reporting, critics ignore the problems of capture that separation of policy and service delivery is intended to overcome (Corbett 1996). The particular problems identified for the services of interest in this study are capture of performance by professionals, and service delivery that is not responsiveness to clients' needs. What the critics rightly point out is that shifting from public management to purchaser-provider arrangements dilutes public accountability and therefore may not increase client responsiveness as intended.

2.4.3 Accountability paradox: responsibility and responsiveness

Ambiguity in the definition of accountability and complex relationships for public services has practical consequences for performance reporting. Accountability for performance does not resolve the tension in performance reporting between political control and managerial autonomy. Accountability is a means to both responsibility and responsiveness and performance reporting is the mechanism. Responsibility and responsiveness are broader concepts than accountability (Mulgan 1997; Uhr 1999; Martin 1997). The constitution provides for political review by parliament under a system of responsible government. The doctrine of responsible government provides for democratic control over the exercise of power. In the Westminster model of responsibility, the executive is accountable to the Parliament. Responsibility derives from the rule of law and principles of natural justice (MAB-MIAC 1993b). Responsibility for service delivery is delegated to different levels of government and autonomous agencies.

Responsiveness to clients adds another layer of complexity by introducing a new dimension to accountability for public services. Providers have to balance responsibility

to funders for outcomes and responsiveness to clients needs. The intent of the FMIP reforms was more efficient, more responsive and more accountable public service (MAB-MIAC 1992).

Accountability exists where there is a hierarchical relationship within which one party accounts to the other for the performance of tasks or functions conferred (MAB-MIAC 1993b). The system of accountability is what ties the administrative part of government with the political part and ultimately to the public (Hughes 1994). In theory, in the Westminster model there is a chain of accountability from public servants and agencies via ministers, cabinet and parliament to the public, that is citizens (MAB-MIAC 1993b; Mulgan 1997).

In practice there are a variety of accountability relationships and processes (Uhr 1989; Wanna, O'Faircheallaigh & Weller 1992), reflecting different responsibilities (Mulgan 1997). Accountability is a complex web of interrelationships, described as an 'accountability map' (MAB-MIAC 1993b) or 'accountability matrix' (Macmillan 1999). Parliamentary committees, the Australian Auditor-General and the Ombudsman are different accountability processes (Uhr 1999). The Auditor-General is an independent statutory officer of the parliament and audit is the accountability mechanism. The Ombudsman is an independent statutory officer of the executive and complaint is the accountability mechanism (Rose 1999). Audit and complaints mechanisms serve different interests and this can create tension (Brennan 1998, Rose 1999).

Potential barriers to accountability include the failure to clearly specify goals, multiple objectives, unclear lines of authority, and too many and too complex reporting mechanisms (MAB-MIAC 1993b; Barrett 2000). The inability to clearly designate roles and responsibilities weakens accountability in practice. Government agencies are more accountable than private sector agents, as decisions are open to scrutiny by parliament, the Audit Office, the Ombudsman, the courts, the AAT and the media (Barrett 1997b).

The issue for this study is the nature of accountability relationships for agencies providing public services. As indicated in Figure 2.1, there are two key relationships for public services, and information is fundamental to accountability in both relationships. Political control and improving service delivery are different ends. The potential

conflict between two different accountability structures is explicit in policy statements and the Audit Office implementation guidelines.

This results from two different and potentially conflicting perspectives on the idea of responsiveness. The first perspective is responsiveness to ministers and cabinet priorities. Strategies for political responsiveness aim to increase political control by including effectiveness, defined as results or outcomes, in accountability for public services. Political responsiveness requires agencies delivering public services to be accountable upwards to policy priorities.

A second perspective is responsiveness to the individual needs of clients. This requires agencies delivering public services to be directly accountable outwards to clients (OECD 1987). Strategies for client responsiveness aim to increase consumer control by including client satisfaction and perceptions of quality in accountability for public services. Agencies providing public services are caught between responding to the different and potentially conflicting priorities of elected policy-makers and clients needs (OECD 1987, 15). Clients are primarily concerned with the quality of service delivery. Policy makers are concerned with results or program outcomes. Lynn (1996) argues this tension between client oriented service delivery processes and results is inherent in public management, and this is not easily resolved. The tension between monitoring for accountability and for performance improvement is a variant of an old tension in public administration/management between results and process (Lynn 1996, Kettl 1996).

Accountability is a feature of asymmetric authority relationships such as between a principal and an agent. In theory, performance reporting solves problem of information asymmetry in principal-agent relationships (Simon 1991). Where a principal cannot personally investigate what is happening with resources entrusted to an agent, an independent auditor is engaged. The Auditor-General performs this responsibility for the Parliament. Annual Reports and Budget Papers; scrutiny by Auditor-General, Ombudsman and Parliamentary Committees; and external review by the AAT and other specialist Tribunals, are all external accountability processes. Performance reporting by the SCRCSSP for COAG, the case study in Chapter 6, is an external accountability process. Agencies' annual reports and portfolio budget papers are accountability processes that rely on internal performance reporting. Service charters, the case study in Chapter 7, are an internal accountability process. The focus of external performance

management systems is information for policy evaluation and accountability to Parliament. The focus of internal performance management systems is information for performance improvement.

Different perspectives on responsiveness and responsibility explain the accountability paradox. The tension is between political control and managerial autonomy. The issue is balancing political, managerial, professional and client accountabilities that pull in different directions. Purchaser-provider arrangements separate responsibility for policy and service delivery, and rely on performance reporting for accountability. Information asymmetry between purchasers and providers creates gaps in performance reporting (PUMA 1999b). According to agency theory, efficient design principles to overcome the problem of information asymmetry in contracting are clear definition of roles and responsibilities, ex ante specification of performance indicators, and ex post performance reporting (PUMA 1997b).

In summary, the issues around transfer raised in this chapter relate to accountability relationships and reporting mechanisms for public services. Contracting out public service delivery to autonomous public and private organisations has focused attention on performance reporting (Alford & O'Neill 1994, Hughes 1994, PUMA 1997a & 1997b). However, market-type mechanisms for public services create service delivery networks in which accountability structures are more fragmented and complex, and this makes this makes policy coordination difficult (Rhodes 1998).

Complex accountability relationships for public services lead to confusion about means and ends in performance reporting. Accountability has responsibility, or conformance, and responsiveness, or performance, dimensions (Barrett 1997b). Great faith has been placed in reporting to balance conformance and performance, and to balance between political responsiveness to policy priorities and responsiveness to the needs of client. Responsibility is shared between funders and service providers, and accountability to clients adds a new outward dimension to performance reporting.

In theory, agreed objectives and transparent performance reporting against a balanced set of indicators overcome the problem of information asymmetry between principals and agents in contracting (PUMA 1994; DoF 1995; IC 1996; PUMA 1999b). Performance reporting also changes the inward focus of service providers to an outward

client-orientation. In practice, complex relationships for public services create accountability traps that limit responsiveness (Uhr 1989). Purchaser-provider models of accountability relationships assume a clarity that does not exist in practice. Information asymmetry between purchasers and providers is one explanation of gaps in performance reporting that limit accountability. As will be discussed in Chapters 4 and 5, information asymmetry between providers and clients is another.

2.5 Conclusion

Accountability is fundamental to good governance in democratic societies (MAB-MIAC 1993c). Administrative reform and NPM have changed relationships by opening agencies to greater external scrutiny and direct accountability to clients. Contracting increases fragmentation in service delivery networks and changes the interface with clients to private and not-for-profit agencies (Ryan 1995). Contracting also changes the basis of accountability from administrative procedures to performance measurement and audit (Henkel 1991; Zifcak 1974; Pallot 1999). The contract state is a more evaluative state (Henkel 1991; Walsh 1995).

However, complex accountability relationships for public services lead to accountability traps (Uhr 1989). Contracting fragments responsibility among multiple contractors and separates policy agencies from service providers raising the prospect of gaps between intentions and outcome (Chalmers & Davis 2001). Separating policy and service delivery has plagued previous models of public administration. The issue is not only contracts with autonomous service providers, but service agreements between different levels of government. Performance monitoring aims to close the gap between government policy intentions and outcomes achieved by contracted service providers (Chalmers & Davis 2001). Closing this gap requires clear assignment of responsibility for outputs linked to outcomes, and performance reporting.

Performance reporting is an accountability mechanism for control of scarce public resources and a technique for improving service delivery for clients. Quality is defined as service delivery and as responsiveness to the needs of clients. So a question for the cases in Part II is whether quality indicators and standards increase consumer control over service delivery.

This chapter has examined accountability relationships for public services which have complex principle-agent relationships. Transparency is a test of accountability and performance reporting is a key link in the accountability chain. The shift to accountability for performance has been driven by central agencies. As Australian reformers have explicitly recognised, there is a balance to be struck between political responsiveness to policy priorities and managerial responsiveness of service providers to client needs (RCAGA 1976; MAB-MIAC 1992; ANAO-DoF 1996).

Performance reporting is fundamental to accountability relationships and quality improvement techniques. Insider supporters argue that monitoring improves accountability and service delivery by making performance reporting transparent (MAB-MIAC 1992; ANAO-DoF 1996; Barrett 1997a; Bartos 1995). Critics argue that performance reporting is part of a wider shift under NPM from political to managerial accountability. Zifcak (1994) argues this is a narrowing of the definition of accountability.

Performance reporting has to balance accountability relationships in two directions: funder-provider interface and professional-client interface. Information asymmetry in these two relationships explains gaps in performance reporting that limit accountability and have consequences for policy and service delivery. However, contracting increases the gap between policy and service delivery. A contract model assumes clear separation of funders responsible for policy outcomes and service providers responsible for service outputs. The practical issues for balanced performance reporting are separating the responsibility of purchasers and providers for quality and selecting robust performance measures, and reformers have looked to performance reporting in business.

Budget processes mediate and reconcile policy objectives and resources for public services. Therefore the next chapter examines the place of quality in performance management models in the context of changes in financial management and budget processes.

CHAPTER 3

THE METERING PROBLEM FOR PUBLIC SERVICES

3.1 Introduction

Performance reporting is the practical expression of accountability, and provides the evidence of results. A consistent objective of public management reform over three decades has been to change the focus of service providers to results, defined as outcomes, and performance reporting has been the means. In the second phase of reform identified in Chapter 2, the spotlight was on the application of managerial approaches to facilitate systematic evaluation of performance. In the third phase, the increasing application of contracting has changed the focus from internal evaluation to external audit. Service agreements and contracts that formalise evaluation criteria have changed the basis of performance reporting. The benefits claimed are increased efficiency, and effectiveness, and services that are responsive to client needs. New accountability mechanisms shift the focus in reporting to results and clients.

Budget funding for programs and services is the practical expression of government policy priorities. Performance management requires some means to judge whether or not expenditure on programs is meeting public policy objectives. Evidence is the new currency in policy evaluation in debates about cost-effectiveness and comparing service delivery by public and private providers. Qualitative evaluation and performance measurement use different evidence to make these judgements (PUMA 1996c; World Bank 2000), and increasingly these judgements are based on performance measurement.

Information is the foundation of performance reporting, and is important precisely because of the influence on political priorities and community perceptions (Eckersley 1998). In theory, transparent performance information and external reporting will improve the performance of agencies responsible for delivering public services (PUMA 1994; SCRCSSP 1995; MAB 1997; DoF 1998a). In practice, agencies have encountered implementation problems associated with the difficulty of defining performance and achieving balance and clarity in performance reporting.

This chapter considers the question of how quality is defined in performance management frameworks for public services. This has to be understood in the broader context of financial management reform at the Commonwealth level in Australia. The issue is the relationship of quality to performance in the context of public services.

Section 2 examines the timing and sequence of changes that explain the shift from internal evaluation to external performance measurement which has changed the approach to reporting. Two decades of budget and financial management reform at the Commonwealth level have changed the way public services are funded, from historical costs to results or performance. A consistent theme in the path of change from public administration to governance, described in Chapter 2, has been changing accountability from inputs to results (MAB-MIAC 1992 & MAB 1997). The shift to 'outcomes and outputs' budgeting in the third phase of reform explains the growth in external performance reporting and quantitative measurement.

Performance reporting links funding to service delivery outputs and public policy outcomes. Service agreements and contracts require specification and measurement of quality of outputs linked to outcomes. Performance monitoring changes the basis of accountability to criteria specified in standards or indicators. Performance monitoring is changing reporting from internal evaluation to external audit, and from qualitative to quantitative evidence (Zifcak 1994 & 1997).

Section 3 examines the central agencies and the ideas that defined the boundaries of the development path, by shaping policy frameworks and implementation guidelines. Finance, with control of budget coordination, and the Audit Office as the principal external auditor, together have set the direction. Finance and the Audit Office are at the centre of the budget story that explains the changes in performance reporting and shift to standardisation and measurement. The language of business and economics is reflected in the 'outcomes and outputs' budget framework. Agencies are required to report performance against this framework. This is a generic performance management model that specifies the cost and quality of standard units of service and values outcomes. Performance monitoring is a quantitative methodology that requires a framework of indicators and associated measures. Efficiency and effectiveness are generic performance criteria. Efficiency measures inputs in relation to outputs in physical and or monetary terms. Productivity is a measure of efficiency. Effectiveness values outcomes against objectives in quantitative or qualitative terms.

Section 4 considers reporting relationships and mechanisms in the particular context of public services. Performance management is an instrumental framework based on a production process model that standardises and quantifies performance. Definitions

such as 'cost effective services' and 'value for money' disguise the complex and contested nature of performance for public services (Carter 1989; Walsh 1991). The issue is taking performance criteria and measures from business to public services. The relationship between costs, quality and value is complex and this requires a different approach to measuring efficiency and effectiveness. Funders, providers and clients have different interests and perspectives on quality and value. The social paradox (Poole & van de Ven 1989) identified in this chapter reflects ambiguity in the concept of performance that leads to confusion in defining and reporting on quality.

Performance reporting provides information or evidence that is used systematically for evaluation and comparison, and is fundamental to accountability and quality improvement techniques. Performance is defined in standards and indicators, which are different reporting mechanisms. Definitions and measures of productivity taken from economics, and definitions and measures of service quality taken from business, have applied to public services. In practice, agencies have encountered implementation problems associated with defining and selecting appropriate measures of service quality (Ryan & Brown 1998).

Three issues are evident in debates about suitable frameworks, balance and clarity in performance reporting. The first is the ends or purpose, and the tension is between information for audit and control, and information for evaluation and improvement. As discussed in Chapter 2, performance reporting is expected to balance accountability to government for policy outcomes and accountability to clients for service delivery. The second issue is definition, and the issue is the relationship of quality to performance in the context of public services. Performance is defined by efficiency, effectiveness and equity criteria, and the relationship between quality and value is complex for public services. The third issue is performance reporting and the various approaches that provide different evidence of quality. Specifying indicators and monitoring results provides different information in contrast to setting minimum standards and auditing compliance.

The next section examines the change in performance reporting for agencies responsible for funding and delivering public services. The shift from managerialism to contractualism, discussed in Chapter 2, has changed the nature of performance information from qualitative to quantitative, and reporting from internal to external.

Path dependence of change explains the rise of performance measurement. However, change has been evolutionary and incremental and is explained by financial management reform (Wanna, Kelly & Forster 1996 & 2000). Table 3.1 on the next page provides a summary of the main initiatives and reports in the context of the three phases of reform identified in Chapter 2. These reforms have changed the basis on which public services are funded from historical cost to performance, defined as outcomes and outputs. Consequently performance reporting has changed from internal evaluation to external audit, and from qualitative evaluation to quantitative enumeration. Under the umbrella of the FMIP portfolio budgets, strategic planning and evaluation increased reporting. CTC accelerated the shift to external reporting and quantitative measurement. Outcomes and outputs budgets change the basis of funding from inputs consumed to outputs produced. Monitoring quality links the performance of service providers to outcomes and outputs for clients.

3.2 Down the measurement road

The changes in performance reporting have to be understood in the context of two decades of financial management reform at the Commonwealth level that has changed the basis of purchaser-provider arrangements by shifting funding from historical costs to results. Initially, demand was for information for corporate planning and program evaluation, and subsequently for contract management and performance auditing. As explained in Chapter 2, the origins of administrative reform can be traced to recommendations in the Coombs Report, and these included changes to financial management and performance reporting.

3.2.1 'Effectiveness, economy and efficiency'

A major criticism of administrative practice in the Coombs Report was inadequate performance information and reporting. The recommendations foreshadowed many subsequent changes including program budgeting and annual reports for Commonwealth agencies. The report also canvassed many of the problems that would be experienced in the subsequent attempts to change the focus of agencies from inputs and resources to outputs and results. In particular there was considerable discussion of the difficulties in defining and measuring performance for public services.

Table 3.1
Context: Financial Management and Performance Reporting Reforms

| Phase | Reports, Administrative and Legislative Reforms | Evaluations and Budget and Performance Reporting Reforms |
|---|--|---|
| L'ANCIEN REGIME – AMINISTRATIVE LAW REFORM | | |
| 1972-1975 Whitlam Labor Governments | | |
| 1975-1983 Fraser Conservative Coalition Governments | RCAGA Report (1976) | Chapter 3 <i>The Efficient Use of Resources</i> Recommendations for budget and performance reporting reforms Appendix 1C <i>Program Budgeting</i> Appendix 1E <i>Public Sector Management and Related Information Requirements</i> |
| | Administrative Appeals Tribunal Act 1975 Ombudsman Act 1976 Freedom of Information Act 1981 | |
| MANAGERIALISM – PERFORMANCE MANAGEMENT | | |
| 1983-1991 (Dec) Hawke Labor Governments | FMIP 'Managing-for-Results' Corporate Planning PMB Program Evaluation | |
| 1991-1993 (Mar) Keating Labor Government | FMIP Evaluation Task Force Report (MAB-MIAC 1992) | Chapter 6 <i>Financial Management and Budget Reforms</i> Chapter 8 <i>Planning and Reporting Reforms</i> Corporate and Program Management Cycle (MAB-MIAC 1993a) SCNPMGTE results benchmark economic infrastructure services |
| | COAG established | |
| CONTRACTUALISM – MARKET TYPE MECHANISMS | | |
| 1993-1996 (Mar) Second Keating Labor Government | Hilmer Report on NCP (1993) COAG National Competition Policy Agreements (1995) | SCRCSSP benchmark results for social infrastructure services (Case Study I) |
| 1996-1998 First Howard Conservative Coalition Government | Performance Improvement Cycle for 1997-98 budget cycle Financial Management and Accountability legislation effective from 1 January 1998 1989-1999 first full accrual-based budget Public Service Act 1999 1999-2000 first full accrual-based outcomes and outputs budget Performance Management Framework (MAC 2001) | Commonwealth Government Service Charters (Case Study II) New reporting requirements for Commonwealth agencies and GBEs Specify price, quality and quantity of outputs New reporting requirements for agency Annual Reports Provide performance information on achievement of outcomes and contribution of outputs to outcomes Changed arrangements for PBSs Corporate Planning and Governance Outcomes and Outputs Structure Business Planning Reporting Performance Review and Feedback |

The report also tackled the thorny issue of performance criteria in the context of public services. The concepts of economy, efficiency, effectiveness and equity were used in the report and its recommendations. However, Coombs articulated a very clear position on the relationship between effectiveness, economy and efficiency (RCAGA 1976, Vol. 1, 31-2):

For the purposes of this Report, effectiveness is one of two distinguishable elements in efficiency. Effectiveness is concerned with the relationship between purpose and result. Thus, an action or program is effective if it achieves the result for which it was initiated.

But efficiency involves additionally a consideration of the resources used in achieving the result. A program is efficient only if its effectiveness is achieved with an economic use of resources. Efficiency is also therefore concerned with the relationship between resources used and the results achieved: between input and output. It comprehends both economy in this sense and effectiveness.

Performance information and reporting has come along way since the Coombs Report. Scrutiny by the Auditor-General, Ombudsman and Parliamentary Committees opened agencies to external review. In addition to the administrative law reforms discussed in Chapter 2, reporting has been driven by the changes in budget processes and new approaches to policy and program evaluation. A significant change in the Fraser era was the introduction of efficiency audits in 1979. Another innovation in this period was the introduction of Portfolio Explanatory Notes (PENs) in the budget papers (Noon 1992). From 1978 all Commonwealth agencies were required to provide an Annual Report to parliament, however mandatory reporting requirements were not introduced until 1985 (MAB-MIAC 1992; Wettenhall 1999). Although PENs and Annual Reports are based on internal reporting, these did increase accountability and open agencies to greater parliamentary scrutiny.

3.2.3 'Managing for results'

With the introduction of the FMIP there was a fundamental shift from traditional financial accountability for budget expenditure to results, defined as service outputs and program outcomes (MAB-MIAC 1992). Strategies included portfolio budgeting, strategic planning and program evaluation techniques. Performance reporting was a counterbalance to devolution of responsibility for resource management from central agencies to departments and service delivery agencies (Keating 1990; Wanna, Kelly & Forster 2000).

FMIP and PMB shifted emphasis in performance reporting from compliance to results (Barrett 2001a). Policy guidelines used the terminology of 'performance information', rather 'performance indicators', as in the UK and NZ. This was explicitly to emphasise evaluation and the role of qualitative as well as quantitative data in making policy judgements (Bartos 1995). Under the FMIP evaluation became mandatory and from 1990 Portfolios Evaluation Plans (PEPs) had to be included with the budget statements (Barrett 2001b). Not surprisingly, departments and agencies regarded evaluation as the most difficult element of 'managing for results' (DoF 1988; Barrett 1992).

A program structure was introduced to link strategic decision making and operations by setting budget allocations against specific objectives. Portfolio Budgeting devolved allocation decisions from Cabinet to portfolio ministers, who faced new reporting requirements in Portfolio Budget Statements (PBSs). Program Performance Statements (PPSs) replaced PENs to focus on the effectiveness of the government's programs (MAB-MIAC 1992). On the audit front there was a fundamental shift with the introduction of performance audits (Barrett 2001b).

Good performance information is essential for accountability and management (APSB-DoF1986). Developing performance information was an integral part of PMB in the FMIP (ASPB-DoF1986; MAB-MIAC 1992). However, parliamentary and internal reviews expressed concerns and frustration about the slow pace of development and the inadequacy of performance indicators (HRCSFPA 1990; MAB-MIAC 1992). The 1990 parliamentary report, *Not Dollars Alone*, observed that most of the performance information available at that time related to processes and efficiency rather than results. The report identified areas where performance information is particularly difficult (HRSCFA 1990, 76):

1. Policy
2. Complex client counselling
3. Programs of a social/quality nature
4. Service delivery
5. Commonwealth/State programs

The difficulties experienced in practice were those identified by Coombs a decade earlier, namely the problems of results in a public service context and performance

measurement (Holmes 1989; MAB-MIAC 1992, 55). In the words of the Secretary Department of Finance (Sedgwick 1996a, 3):

...the focus on results has squarely put the emphasis on requiring clear specification of objectives and a clear specification of the tests by which the achievement of objectives can be assessed. Perhaps the weakest link in the accountability chain so far has been the second aspect of that duality: namely the specification of the tests.

As discussed, managerialism emphasised the application of business management techniques within the public sector, and this was reflected in the language applied to evaluation and performance information, in policy and implementation guidelines (MAB-MIAC 1992 & DoF 1994). Efforts to link program evaluation and performance monitoring to budget reporting were impeded by inadequate performance indicators (MAB-MIAC 1992). Successive parliamentary and internal reviews expressed concerns about the slow pace of development of performance monitoring and the adequacy of performance indicators (DoF 1988; HRCSFPA 1990; MAB-MIAC 1992). Independent studies found that whilst there had been a substantive shift in performance reporting from inputs to results, effectiveness indicators were underdeveloped compared to efficiency (Howard 1991; Alford & Beard 1997).

Nevertheless the developments in performance reporting and evaluation in this period laid the foundations for the subsequent shift to contracting, and there were significant developments in the third phase of reform identified in Chapter 2 (MAB-IPAA 1998; PUMA 1997b & 1998a).

3.2.3 'Outcomes and outputs thinking'

The election of the Howard Government accelerated the shift to contestable service delivery and CTC became the official policy in the first term (MAB 1987; Davis & Rhodes 2000). CTC and the new resource management framework, based on outcomes and outputs budgeting, replaced the FMIP (Wanna, Kelly & Forster 2000). The new framework changed the way agencies report performance, and for the first time linked performance information in Annual Reports and Portfolio Budget Statements (PBSs) (MAB 1997; DoFA 2000a). Together these reforms compel agencies to specify outcomes, outputs and performance indicators. In the new language of 'purchaser-

provider' arrangements, funds are appropriated to deliver specified services to achieve defined outcomes (DoF1995; IC 1996).

A new resource management framework for departments, and agencies developed since 1998, has changed the structures by which agencies measure, improve and report performance (MAB 1997; DoFA1998a). Many of the key elements were drawn from the National Commission of Audit Report and the discussion paper *Towards a Best Practice Australian Public Administration*, both released in 1996 (MAB 1997). However, the detailed framework was developed by Finance and the main elements are (DoFA 2000a; 2001a):

1. Accrual Budgeting and Reporting
2. Outcomes and Outputs Framework
3. PIC and CTC
4. Annual reporting of planned and actual performance
5. Service Charters

The Secretary of Finance explained the framework as follows (Boxall 1998a: 40):

The new framework requires agencies to specify and cost their outputs against planned outcomes and identify performance indicators and targets. Outcomes and outputs will therefore form the basis of an agency's operating budget and external reporting framework. ... planned outcomes need to be clearly defined so that progress towards their achievement can actually be assessed.

The financial framework is set through the FMA Act 1997, and related Ministerial Orders and Guidelines (DoFA 2001a). Accrual-based outcomes and outputs budgeting has replaced PMB and outcomes have a legal status. GBEs are accountable under separate provisions of the Commercial Authorities Accountability (CCA) Act 1997.

PIC and CTC, the new performance management framework, changed the management improvement agenda by shifting the focus of evaluation to external performance monitoring and audit. This is reflected in policy and performance reporting guidelines by a change in emphasis from performance information to indicators and measures (DoF 1998a & 2000a). Outcomes and outputs framework, called the 'performance management cycle' (DoFA 2000a, 29), connects with the wider information on the

quality, quantity and price of outputs to broader outcomes (DoFA 2000a; Ayres & Russell 2001).

As a consequence of the changes, the concept of the 'portfolio budget', central to the FMIP, was quietly dropped (Wanna, Ryan & Ng 2001). More significantly, the output-priced budget system fundamentally reverses the relationship between government and departments and agencies. Governments change from being a price taker from departments and agencies, to a price maker with considerable say in the quantities and qualities of outputs purchased (Wanna, Kelly & Forster 2000, 269). Quality in this framework is defined as an output dimension. The new budget arrangements require clearly measurable, or at least assessable, outcomes and outputs (Barrett 2000).

The Public Service Act 1999 completed the reform package by setting out new reporting requirements. For the first time there is a direct link between information provided in Annual Reports and in PBSs (MAC 2001). As the General Manager of the Budget Group in Finance explained (Bartos 2000b, 5):

The reporting and analysis mechanism for the new framework is through comparison between the Portfolio Budget Statement, released with the Budget that provides current forward estimates of the costs and performance of outcomes and outputs for that particular agency, and agency Annual Reports that show the actual cost and performance of the specified outcomes and outputs. The new accrual budgeting framework allows direct comparison of budgeted performance and actual performance as both documents present information in accrual terms with the specified outcomes and outputs for each agency. Over time, agencies and external accountability bodies will become increasingly familiar with the framework and the opportunities it affords to examine agencies' performance and effectiveness.

Frederick Taylor would be proud of this masterpiece of engineering in which government specifies outcomes and funding agencies specify the cost, quantity and quality of outputs that deliver these outcomes. The reporting framework generates information on the quality, quantity and price of outputs (DoFA 2000a; Ayres & Russell 2001). The 1999-2000 Budget and Annual Reports was the first cycle requiring agencies to report under the new framework. The 2000-01 Budget was the first to fund agencies on a cash basis for full cost of delivering public goods and services (Wanna Kelly & Forster 2000).

Whilst it will take time for agency reporting adapt to the new framework, this fundamentally changes the budget logic to a 'results-based' philosophy with emphasis on 'output prices'. Price was defined initially as "the market value of a good or product" (Bartos 2000b, 8; DoFA 2000a). In the 2002-03 budget guidelines price was redefined as "the amount the government or community pays for the delivery of agreed outputs" (DoFA 2003). There are two challenges for funding agencies (Bartos 2000b):

1. identify outputs needed to achieve planned outcomes, and
2. specify the required quantity, quality and price.

The framework not only makes the role of performance information more explicit (DoFA 2000a), but directly links this to the budget process. As the Auditor-General explicitly states, the new framework is intended "to provide a 'clear read' across planning, budgeting and reporting documents" (Barrett 2000a, 10). Combining accrual accounting and outcomes-outputs budgeting put pressure on managers to "define more clearly measurable, or at least assessable, performance outcomes and outputs" (Barrett 2000a, 10).

The cumulative effect of reform over almost two decades has been to change the basis of funding from historical costs and inputs to outputs and results. Accrual accounting and outputs-outcomes budgeting has substantially increased financial reporting to Parliament (Barrett 2000a). However, in the contractualism phase, evaluation has been refocused through the PIC and CTC, which require benchmarking and market testing of service delivery. Program evaluation was a central feature of PMB under the FMIP. However, the shift to contracting in the 1990s has changed the role and focus from internal evaluation to external auditing. Evaluation declined in importance with the demise of the annual PEP, required since 1987, and decentralisation of evaluation to agencies in the late 1990s (Barrett 2001b).

The growth in performance auditing has moved the focus from compliance and conformance to identifying performance improvement is reflected in *Better Practice Guides* (Barrett 2000). Performance auditing is a type of program evaluation, as it does make judgements about the efficiency and effectiveness (Barzelay 1997). However, as the Auditor-General recognises, performance auditing is a narrow interpretation of evaluation that does not make judgements about the appropriateness of policy and programs (Barzelay 1997; Barrett 2001b).

Performance reporting has been central to financial management, and agencies responsible for funding and delivering public services in Australia have been subjected to systematic performance reporting for almost two decades. Indeed, Australia is considered a leader in developing performance indicators (PUMA 1997b). Budget reform has driven the changes in performance reporting and opened departments and agencies to central inspection (Davis 1995, 120). A consistent objective has been to link resource allocation more closely to the political priorities of government (O'Faircheallaigh & Ryan 1992, xii).

Performance reporting provides evidence of results against objectives. As discussed in Chapter 2, reporting mechanisms are the foundation of accountability relationships. Annual Reports and PBSs are the principal accountability mechanisms from departments, through government, to parliament. Annual reports are from departmental secretaries to the portfolio minister and are tabled in parliament. PBSs are authorised by the Minister for use by parliament in consideration of the budget (PM&C 2000). PBSs and Annual Reports are now linked by the outcomes and outputs framework (Barrett 2000a; PM&C 2000). The main reporting mechanisms and their features are summarised in Table 3.2 over the page.

Annual Reports and Budgets are internal accountability mechanisms, and agencies have to comply with specified reporting requirements set out in guidelines developed by Finance and the PSC. The budget reforms since 1998 have changed the way departments report to ministers and parliament (Moore-Wilton 1999a). The Secretary of PM&C described Annual Reports as "a once-a-year score card" (Moore-Wilton 1999b), and these have become the primary means for reporting on specific initiatives including Service Charters, introduced in 1997. Performance reporting in Service Charters is the subject of the second case in Chapter 7. A new addition under the Public Service Act 1999 is the annual *State of the Service* report by the PSC to the parliament which provides a 'whole-of-government' perspective on performance (Moore-Wilton 1999b; PSC 1999).

The main accountability mechanisms based on external reporting are Parliamentary Reports, Audits Reports and the Ombudsman. Performance reporting by the SCRCSSP for the COAG is a parallel external reporting initiative. This is the first systematic

attempt to benchmark the performance of government services and has been broadly applied to services funded by the Commonwealth, States and local governments (Scales 1997; IC 1997a). This is the subject of the first case in Chapter 6.

Table 3.2
Performance Reporting Mechanisms

| Reporting Mechanism | Responsibility for reporting | Requirements & guidelines | Performance criteria | Performance information |
|--|---|--|--|--|
| Portfolio Budget Statements (PBS) Annual Budget Papers | Portfolio ministers, departments and agencies | Budget Appropriation Bills and Senate Estimates Committees | Program expenditure, planned outcomes and outputs | Quantitative measures Qualitative information |
| Annual Reports to Parliament | Departments and agencies | PS Act 1999 PM&C Guidelines | Program outcomes and outputs | Quantitative measures Qualitative information Service Charters |
| State of the Service Annual Report by PSC to Parliament | Public Service Commissioner and PSMPC | PS Act 1999 | Whole-of-Government | Quantitative measures Qualitative information |
| ANAO Audit Reports to Parliament | AG Audit Office | FMA Act 1997 | Compliance appropriation bills Efficiency and effectiveness | Financial audits Performance audits |
| Ombudsman Annual Report to Parliament | Office of the Commonwealth Ombudsman | Ombudsman Act 1976 | Equity (procedural fairness) Complaints | Quantitative complaint statistics Qualitative case studies |
| SCRCSSP Annual Report for COAG | SCRCSSP and Secretariat in the PC | COAG SCRCSSP and Working Groups | Efficiency and effectiveness criteria | Performance indicators and quantitative measures |

Whilst change has been evolutionary a pattern is evident. A consistent objective of budget reform since 1984 has been to link resource allocation more closely to the political priorities of government (O'Faircheallaigh & Ryan 1992, xii). From the outset, Australian reformers have placed greater emphasis on institutionalising the link between evaluation and budgeting than other NPM heartlands (Barrett 1992). Budget reform has introduced new performance reporting mechanisms that have opened departments and agencies to more central inspection (Davis 1995). The shift from corporate planning and program budgeting, to CTC and outcomes and output budgeting, has changed the balance in performance reporting from internal evaluation to external audit (Zifcak 1997). However, the scope of auditing has broadened from efficiency to performance.

Market-type mechanisms for performance improvement such as benchmarking, CTC and market testing of government activities change the balance from evaluation to monitoring. The emphasis in the Finance guidelines on performance reporting has changed from information to indicators and measurement.

The official story is that performance reporting has shifted to outcomes and outputs. The challenge is linking performance and financial management (Pollitt 1999 & 2000), and this is precisely the intent of outcomes and outputs budgeting and the PIC (DoFA 2000a; MAC2001). Contracts formalise resource allocations, evaluation criteria and indicators to monitor performance. Managing for results is now more reliant on indicators and measurement to assess performance in terms of outcomes for clients (Moore-Wilton 1999a). This is reflected in increased use of service standards and customer satisfaction measures (IC 1997a).

Ideas need promoters with authority to influence and implement reform (Schick 1999). The next section examines the central agencies and ideas that have shaped policy and the implementation of budget and performance reporting for public services. Finance and the Audit Office, with support from the PC, have fashioned performance management and measurement through their policy and best practice guidelines.

3.3 'More than a new wrinkle'

Kettl (1997), reflecting on the global revolution in public management, argued the introduction of performance measurement under managerialism is more than a new wrinkle. As discussed in Chapter 2, budget and financial reform in Australia has been driven by technocratic concerns rather than political ideology (Wanna, Kelly & Forster 2000), and a pragmatic mix of ideas from economics and business management has been clearly articulated in policy documents and implementation guidelines (Davis 1995). Nevertheless the contracting has elevated an economic definition of efficiency and performance measurement.

3.3.1 A troika of agents and the productivity imperative

As discussed in Chapter 2, Finance has been at the centre of a Troika that has been instrumental in elevating the productivity imperative and measurement in judging the success of publicly funded programs. Finance embraced a managerialism philosophy from the outset (Keating 1989 & 1990; Holmes 1989), and captured the performance

management agenda through control of the budget process (Wanna, Kelly & Forster 1996; Schick 1999). With the increasing devolution of resource management to agencies, Finance's position on performance information has narrowed. As discussed in Chapter 2, PIC is the new improvement framework and the language of 'value for money' has been added to effectiveness. Value encompasses quality as well as cost. Finance has drawn on the arguments in the PC report on CTC that public agencies can ensure quality services are delivered by specifying quality objectives and monitoring the performance of contractors (IC 1995).

Better Practice Guides published by the Audit Office have been instrumental in shaping the implementation of performance-based accountability (Barrett 1997a). According to the Auditor-General, examination of performance information is an integral part of performance audits conducted by the Audit Office and it has used its reports to articulate 'good practice principles' (Barrett 1997, 103). The *Contract Management Better Practice Guide* (ANAO 2001) calls for cost or efficiency and service quality standards to be developed so that performance that can be compared, and suggests quantitative measures are easier than qualitative or judgemental ones.

Notwithstanding the independence of the office, the current Auditor-General came to this position from a long career in Finance, and the two agencies have jointly developed the better practice guide *Performance Information Guide* (ANAO-DoF 1996). These guides have in turn drawn on ideas in PC reports. The stance of the PC is essentially an economic perspective on performance that elevates quantitative above qualitative evidence in performance reporting.

Together these agencies have shaped the implementation of performance management and the broad application of contracting to public services. The approach has drawn on ideas from business and economics circulating in the NPM policy community facilitated by PUMA.

3.3.2 International policy transfer

As discussed in Chapter 2, performance management is part of an international movement to focus policy makers and service providers on results against public policy objectives (PUMA 1996d; World Bank 2000). Australia, together with the UK, has a longer history of using performance information more explicitly for external as well as

internal purposes (PUMA 1994). However, in contrast to NZ and the UK, the intent in Australia has always been to measure outcomes (DoF 1988; SCRCSSP 1995; Schick 1999). A 1996 international survey identified Australia as a leader in performance measurement reporting (PUMA 1997b).

The quest to link budgets with program evaluation is an old one (Barrett 1992). PMB drew on recommendations in the Reid and Coombs Reports (O'Faircheallaigh & Ryan 1992; Wanna, Ryan & Ng 2001), which in turn took lessons from initiatives in government and the private sector from the 1960s in the US and the UK (Carter et.al. 1992; House 1993; Grey & Jenkins 1995; Lynn 1996; Garbor 2000). Management by Objectives (MBO), Program Analysis and Review (PAR), Planning, Programming and Budgeting System (PPBS), and Zero-Based Budgeting (ZBB) were all output oriented. The critique of these budget systems was that planning and budgeting were invariably divorced from each other. The failure of many these initiatives has been attributed, in part at least, to inherent difficulties in performance measurement in the public sector (PUMA 1994).

These issues resonate in assessment of more recent experience (O'Faircheallaigh 1992). PUMA (1996c) identified two issues from recent international experience in performance management. The first is how to measure and evaluate the actual level of performance. The second is how to make the actual level of performance count for something and ensure that performance improves.

For guidance on performance measurement, public agencies have looked to business. Drucker (1997) articulated universal principles of management in the 1950s and was influential in establishing management as a profession transferable to any organisation or sector (Garbor 2000; Guy & Hitchcock 2000). Performance management techniques in Drucker's view, apply equally to public and private agencies. The practical effect has been the application to public services of a succession of business techniques from Drucker's MBO in the 1960s, to the current vogue for a BCS, Benchmarking and Customer Service Standards. Managerialism is on full display in the current performance management framework that links outcomes and outputs budgets to corporate planning and balanced score card systems (DoFA 2000a; MAC 2001).

According to Drucker (1997) the performance problem for public service institutions "is that efficiency and effectiveness are endangered by reliance on budget allocations not linked to results". In contrast, business is paid for satisfying customer wants and what they are willing to pay for, so choice guarantees results. In the absence of competition and choice, performance reporting that links resources to budget priorities, benchmarks and performance measures is a substitute for price signals to drive efficiency and effectiveness.

The origins of performance measurement can be traced to scientific management and Taylorism (Garbor 2000). The emphasis on measurement has led to the criticism that performance management is 'neo-Taylorism' (Pollitt 1990a; Grey & Jenkins 1995, Trosa 1997). Hughes (1999) suggests an alternative explanation is that performance management reflects an older tradition of ensuring value for scarce public money. However, standardisation and quantification, the hallmarks of Taylorism, are reasserted in the outcomes and outputs framework.

Economics has supplied efficiency indicators and measures, but more fundamentally, the ideas about contracting that have shaped the approach to performance management. As discussed in Chapter 2, economic rationalism is reflected in agency theories of purchaser-provider relationships, and the central concern is the loss of managerial control over agents by principals (Althaus 1997). The rationale for performance reporting is to overcome information asymmetry between principals or funders and agents or providers and to reduce 'shirking' (Carter 1998).

Alchian and Demsetz's (1972) seminal article on the economics of information identified two problems for performance reporting in contracting. In the language of economics these are described as 'metering' and 'team production'. To meter is "to measure and also to apportion", and the measuring and weighting of productivity and quality are considered in this chapter. Team production is where "the product is more than the sum of separable outputs of cooperating resources". Team production is a characteristic of services, and is considered in Chapter 4. As is the practice in economics, Alchian and Demsetz make no distinction between outputs and outcomes, simply defining output as 'the effect'.

Performance management requires identification of the performance criteria and some means of evaluating results. For public services this means policy objectives have to be stated in terms of outcomes to be achieved, and service delivery results have to be evaluated against efficiency and effectiveness objectives (IC 1995). Whilst there is general agreement on the need for systematic assessment of the results against objectives, there is considerably more debate about precisely how this should be done.

The purpose of evaluation is to assess the value or success of public programs and services (House 1993; Pollitt 1995). Performance evaluation techniques assume that (DoF 1993 & 1994; Owen & Rodgers 1999):

1. objectives are clearly defined;
2. criteria can be specified; and,
3. standards and indicators exist that link activities to objectives.

Criteria can be specified in standards or indicators, which are different approaches to monitoring. Judgments can be based on quantitative measures or qualitative information. Monitoring is a particular form of evaluation where judgements are based on measurement (Owen & Rodgers 1999). Performance monitoring and quality assurance, discussed in Chapter 4, are also different approaches to minimising contract failure (IC 1996).

The language of business and economics is reflected in the new performance management framework. According to MAB (1997, 7), "government purchases specified outputs from agencies, public and private, to achieve outcomes", and "best practice effective financial management is in the private sector". Whilst a different performance management framework was at the centre of the FMIP and PMB (MAB-MIAC 1993a), there is consistency with the new outcomes and outputs framework in the intent to focus on results by linking performance reporting and financial management (MAB 1997). However, the 'Outcomes and Outputs Framework', introduced in the 1999 Federal Budget, changes the basis of performance information and elevates productivity. *The Outcomes & Outputs Framework Guidance Document* sets out performance reporting requirements at two levels (DoFA 2000a, 29 & 36):

1. the effectiveness in achieving portfolio outcomes, and
2. the productivity of a given output in terms of the combined and interdependent effects of its price, quantity and quality.

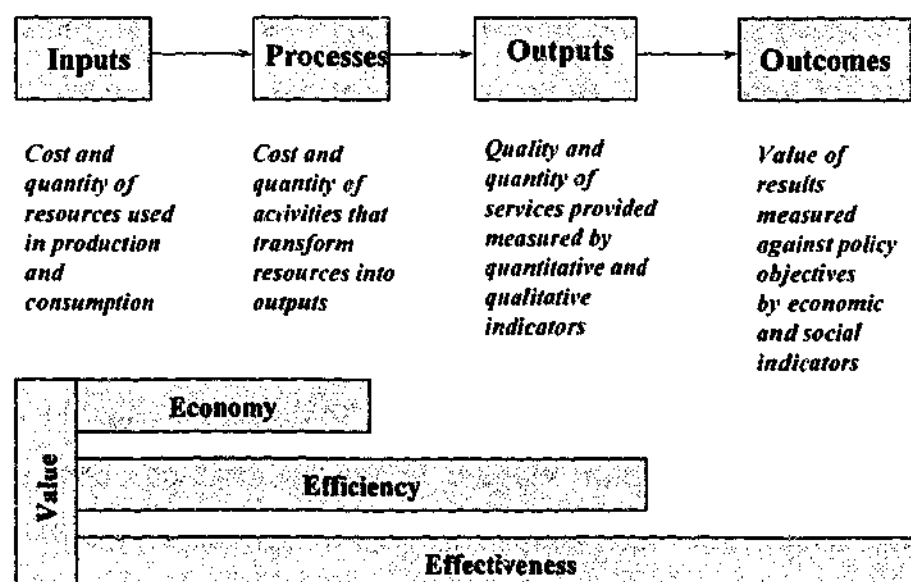
Outcomes are defined as the impact of programs. Budget appropriations are based on outcomes linked to policy objectives (Bartos 2000a). As discussed above, in theory performance reporting enables comparison between intentions in PBS and actual performance reported in Annual Reports (Barrett 2000a; Bartos 2000a). Outputs are the 'actual deliverables' or 'products and services', described as the 'engine room' of the framework. Outputs indicators provide information on the productivity of a given output. Productivity is defined as the balance between the price, quantity and quality of an output. Finance is also quite clear about the intent to fundamentally change the budget logic to a 'results-based' philosophy which emphasises 'output prices' (DoFA 2000a). This requires full costing to set the 'price' of outputs. In the new outcomes and outputs framework, the full cost of 'deliverables' is funded on an accrual basis (Guthrie 1999; Wanna, Kelly & Forster 2000; Ayres & Russell 2001). Responsibility for determining outcomes and outputs is devolved to portfolios and agencies. However, costing for a given quantity of outputs is agreed with Finance, which consequently retains control.

This is an instrumental model of performance management that specifies, standardises and quantifies performance. The explicit intent is "balance and clarity" in performance information (DoFA 2000a, 28). The need for consistent performance information is driving the shift to performance measurement, and the most significant change is a greater focus on prices and measurement in reporting on outputs (Bartos 2000a&b). Criticism of evaluation based on performance measurement relates to two issues. One is that indicators focus on efficiency at the expense of effectiveness criteria. A second criticism is that measurement limits evaluation to what can be quantified.

3.3.3 A production process model and performance measurement

'Accrual-based Outcomes and Outputs Framework' (MAB 1997) or 'Outcomes and Outputs Structure' (DoFA 1998a; MAC 2001) is the new basis for performance reporting. This is a production process model illustrated in Figure 3.1, that assigns responsibility for performance by separating and specifying outputs linked to outcomes. Inputs, outputs and outcomes are the currency of performance measurement in this model (Carter, Klein & Day 1992). Standardised service outputs and quantitative outcome measures enable comparison of the 'cost effectiveness' of service outputs that contribute to policy outcomes (Carter, Klein & Day 1992; Smith 1996; Talbot 1999).

Figure 3.1
Process Model of Performance Measurement



Separating and standardising inputs, outputs and outcomes is a production orientation based on manufacturing concepts (Grönroos 2001). Central agencies have adopted the technical language of performance management to describe the links between programs and results using the concepts of inputs, outputs and outcomes (ANAO 1999b; DoF 2000a; PM&C 2000). Inputs are the resources used in service delivery, processes are what is done, outputs are what is produced and outcomes are the impact. Outputs are services delivered and outcomes are the results against objectives. According to the Auditor-General, performance information addresses the relationship between inputs, processes, outputs and outcomes (Barrett 1997b). Furthermore, performance information is used for monitoring and evaluation, and these are complementary approaches to assessing efficiency and effectiveness (Barrett 1997b).

This distinction between outputs and outcomes, generally ignored in the management literature, has attracted considerable attention in the evaluation literature. Outputs are the goods or services produced by agencies, on behalf of government, for external organisations or individuals. Outcomes are the results, impacts or consequences of

actions by the Commonwealth on the Australian community (Barrett 1997b; PM&C 2000).

The purpose of measuring performance is to assess the value of activities and make judgements about where to invest scarce public resources to best effect. Outputs measure activities in quantitative terms. Finance has added another degree of separation by distinguishing between two types of outcome measures. One is 'overall outcomes' that measure the results of government programs. The second is 'effectiveness' that measures "the government's contribution to overall results principally through its administered items and its agencies' outputs" (DoFA 2000a, 31).

Finance's position on quality has also narrowed from an effectiveness indicator (DoF 1995) to an output measure (DoFA 2000a). This approach separates efficiency and effectiveness, and separates quality of outputs from effectiveness and outcomes. As Chapter 4 explains, separating quality of outputs from effectiveness or outcomes is a problem for services characterised by team production.

Quality in a production process model is a variable that can be standardised and quantified. Output indicators provide information on "the productivity of the combined and independent effects of its price, quantity and quality" (DoFA 2000a, 35). As Finance explicitly acknowledges this "balance or equilibrium is extremely elusive in practice" (DoFA 2000a, 36).

In summary, Finance has been the lead agency, and a pragmatic mix of ideas from economics and business is evident in the key reports and implementation guidelines. The general issues around transfer relate to conceptual ambiguity in key terms and the nature of relationships in public service contexts. As Pollitt (2000) argues, the fallacy of 'management theory' is that there is a coherent set of principles that provide the key to improving efficiency, effectiveness and responsiveness of service delivery. Standards, indicators, targets, benchmarks and measures are concepts that are used indiscriminately in guidelines, which only adds to the confusion about what is being reported as performance. As discussed in Chapter 2, a fundamental tension between audit for control and evaluation for learning is evident in the management theory (Palmer & Hardy 2000), and this is reflected in debates about qualitative and quantitative approaches to evaluation (Owen & Rodgers 1999).

A production process model assumes that outputs and outcomes can be separated, standardised and quantified. The broad application of this framework for performance management and performance measurement raises two sets of issues. The first relates to the conceptual and technical difficulties of performance measurement. Changing from performance information to measures does reflect the fact that success is increasingly judged by measurement (Pollitt 2000). However, as Carter (1991) argues the problems of performance measurement that places a numeric value on outputs and outcomes, cut across a public/private dichotomy.

A second set of issues relates to the suitability of business frameworks for the particular context of public services, and this is the main concern in this study. Critics argue there are limits in applying principles taken from business to the public sector (Allison (1979; Kettl 1994; Mintzberg 1996). The issues around transfer relate to the definition of performance, and the balance and clarity, in reporting for public services. The problem is the complex relationship between costs, quality and value. Whilst not easy for private services, this is particularly difficult for public services that have multiple stakeholders with different perspectives on performance or results. The problem is different perspectives on results that lead to confusion in selecting suitable information for performance reporting. The next section examines the consequences of applying a production process model and performance measurement to public services.

3.4 Wicked problems and contested values

Rittel coined the evocative term 'wicked problems' to describe the organisational complexity that faces corporate planning and strategy in business, and policy makers in public contexts (Mason & Mitroff 1981; Quinn 1988). The characteristics of these problems are interconnectedness, complex relationships, uncertainty, ambiguity, conflict and societal constraints. Mason & Mitroff (1981) suggest that wicked problems of organised complexity have two major implications for policy making. There must be broad participation in policy-making processes and this must be based on a wide spectrum of information gathered from diverse sources. Information in performance reporting is the main concern in this study.

As discussed in Chapter 2, in theory agreed objectives and transparent performance reporting against a balance set of indicators overcome the problem of information

asymmetry between principals and agents (PUMA 1994; DoF 1995; IC 1996; PUMA 1999b). The key assumptions are that performance information is objective and that indicators can serve the different interests of multiple principles and agents (Radin 1998). In practice problems stem from the ambiguous nature of performance (Alcian & Demsetz 1972). This reflects not only the different interests of funders, providers and clients, discussed in Chapter 2 and identified in Figure 2.1, but also different approaches to performance reporting.

As discussed above, in the new outcomes and outputs framework, funders are required to specify the quality of outputs linked to policy outcomes, and service providers are required to report on performance. Performance is defined in output and outcome indicators. The practical problems are separation, specification and balanced reporting. The links between outputs and outcomes are complex and, even where these links can be specified there are often measurement problems (Pollitt 1988; Carter 1991; Waldersee 1999).

3.4.1 'Tin openers and dials'

Performance indicators should be simple to use but capture the complexity (Carter 1991). The analogy of 'tin openers' and 'dials' is used to distinguish between prescriptive and descriptive performance indicators for monitoring and evaluation (Carter 1991; Carter, Klein & Day 1992). Prescriptive indicators are dials that are precise measures which link inputs and outputs to results. Descriptive indicators are tin openers that record change and prompt further evaluation. The language of performance standards and indicators suggests dials, but in practice most are tin openers (Carter 1991).

The language of inputs-processes-outputs-outcomes, performance indicators and measures suggests a clarity that does not exist in practice. Efficiency and effectiveness criteria, illustrated in Figure 3.1 above, are defined in standards and indicators which are different approaches to performance reporting. A standard specifies a minimum requirement, while an indicator is a statistic or parameter. These are different approaches to defining quality that provide different evidence of performance. Benchmarking results, considered in the first case in Chapter 6, uses indicators and measures for performance reporting. Service Charters, considered in the second case in Chapter 7, use standards and information on compliance for performance reporting.

Implementation guidelines in the APS generally adopt the Auditor-General's definition of performance information (Barrett 1997a; PM&C 2000, 14):

Performance information is evidence about performance that is collected and used systematically which may relate to appropriateness, effectiveness and efficiency and the extent to which an outcome can be attributed to an intervention.

Performance information can be qualitative and quantitative evidence, but it should be verifiable (Owen & Rodgers 1999). Quantitative information has a numeric value, while qualitative information describes characteristics (MAB-MIAC 1993c). Performance measures are more precise than indicators and assume there is a direct causal link between an intervention and a measurable change in performance (Owen & Rodgers 1999).

Three issues are evident in debates about appropriate performance information. The first is the criteria used to evaluate performance. Efficiency and effectiveness are generally identified as the two elements of performance. Efficiency relates inputs to outputs, and productivity is an indicator of efficiency. Effectiveness relates outputs to outcomes, defined as results against objectives. Critics of evaluation practices argue that performance indicators focus on efficiency by measuring the productivity of resources used, rather than on effectiveness by measuring outputs and outcomes (Carter 1991, Howard 1991). As discussed, an input-output-outcomes model separates efficiency and effectiveness.

The second issue is specifying the links between resources, activities and results. An input-output-outcome model standardises and quantifies service units, costs and quality. In theory, performance standards and indicators are neutral, technical artefacts, but in practice these are partial, imperfect and indicative (Bouvaird 1996). Specifying criteria that link service delivery or program outcomes to public policy objectives is often difficult. The problems in developing appropriate indicators to monitor performance impeded the implementation of performance management strategies under the FMIP (Barrett 1997). Significant gaps in performance information have been a persistent theme in reviews of implementation progress (MAB-MIAC 1992; 1993a; 1993c).

The third issue is measures to rank and compare performance. Even where the link between processes and results is clear, there are often measurement problems (Pollitt 1988, Carter 1991; Waldersee 1999). Measurement in the form of indices, scales and score cards suggests objectivity in performance information. Supporters of performance indicators and measurement recognise the conceptual and technical difficulties in the public sector context (Carter 1989, 1991 & 1998; Carter, Klein & Day 1992; Smith 1993 & 1996). Even the managerialists recognise that measuring results is difficult for public services (Osborne & Gaebler 1992; PUMA 1994 & 1996b; DoF 1995; IC 1996).

As discussed in Chapter 2, performance information underpins accountability and improvement, and the challenge is balanced reporting. Appropriate standards and indicators are a prerequisite to good policy and inaccurate or misleading indicators create a distorted picture that leads to poor policy (Eckersley 1998). The accuracy and validity of performance information is a key issue where this is used in policy evaluation and to decide resource allocation (PUMA 1994). The issue is whether definitions taken from business are useful in the context of public services, or whether these distort performance (Eckersley 1998). Stringing together a performance measurement system from different paradigms leads to confusion (Bouvaird 1996). Multiple and contested objectives, and specifying the links between intermediate outputs and outcomes, make it difficult to set 'yardsticks' to measure and compare performance (Carter, Klein & Day 1992; MAB-MIAC 1993a). Policy guidelines pragmatically call for balanced performance reporting.

3.4.2 The 'bottom line' for public services

Taking performance reporting from business to the particular context of public services increases the confusion about criteria and evidence of performance. Performance reporting has to link public service outputs to public policy outcomes. Information is required on quantity, quality and value of public service outputs. Value asks how much input achieves how much output or what outcome (Bridgeman & Davis 1998, 116). The assessment of 'value for money' has changed from: program evaluation of outcomes (DoF 1993) to measurement of outputs that contribute to outcomes (DoFA 1998a & 2000b). However, 'cost effectiveness' or 'value for money' is rhetoric that disguises the complex and contested nature of performance for public services (Carter 1989; Walsh 1991; Smith 1993). Funders, providers and clients have different interests and different definitions of performance.

Confusion in the inputs-processes-outputs-outcomes for public services is reflected in the many variations in practice (Carter, Klein & Day 1992; Smith 1996; Talbot 1999). The nexus between outputs and outcomes is more complex for public than private services and this requires a different approach to performance measurement (Smith 1996). Public services have 'public' characteristics or qualities that require a different approach to specifying and reporting on performance (Smith 1996). These are summarised in Table 3.3.

Table 3.3
Public Characteristics and Quality Issues

| Characteristics | Issues for defining and reporting on quality |
|--|--|
| <i>Social value</i> High social value Public interest/benefit measured by social indicators | Specify and monitor outcomes against public policy objectives. Specify standards and measure social value (public benefit) and economic value (utility) Access and equity indicators to monitor social value. |
| <i>Collective choice</i> Direct by clients (possibly involuntary) and indirect by community with different perceptions on service outcomes | Clients and community (citizens) have different perspectives on service performance. Set standards for and monitor service delivery (outputs) and outcomes. Monitor different perspectives on appropriateness of service: <ul style="list-style-type: none"> • users (outcomes and outputs for clients) • citizens (outcomes and outputs for community) |
| <i>Public accountability</i> Multiple stakeholders with different objectives and perceptions of performance Complex principal-agent relationships | Public funders and service providers have different perspectives on accountability for performance. Assign responsibility for services and link to outcomes: <ul style="list-style-type: none"> • political (policy outcomes) • managerial (service delivery) |

Source: This classification was first described in McGuire (1996) and subsequently revised in McGuire (1998c) and McGuire (2001). Appendix C provides explains how this was derived from classifications in services management and public management.

Social values: Service outputs are intermediate measures of outcomes against social policy objectives. Public services have social welfare objectives measured using social indicators (Eckersley 1998). Social policy is concerned with income inequality and distributional equity. The issues is defining and measuring equity. Social value is by nature more qualitative, and suitable indicators and measures are not always available. Sales revenue and profitability are 'bottom line' measures of economic value in business. Social impact and equity are 'bottom line' measures of social value for public services (Carter, Klein & Day 1992). Value becomes values for public services with multiple stakeholders and divergent views on quality and performance. Equity requires a minimum level of service quality and quantity (Crompton & Lamb 1986).

Collective choice: The benefits of public services are consumed collectively by the community as well as privately by users (Walsh 1991b; Orchard & Stretton 1994). The link between revenue and client users is fundamentally different for public services. The primary source of revenue for service providers is not customers who pay, but budget-funded agencies or 'purchasers'. Allocation and distribution are decided by collective choice in policy processes, and voice provides the imperative for responsiveness to clients. Public services have multiple stakeholders with divergent views on 'outcomes', and 'quality'. Revenue for service providers flows from budget-funded agencies or 'purchasers'. Clients' access to services is decided on eligibility or assessed needs, not customer choice. Giving voice to client views in performance measurement is important for public services, given their non-traded status.

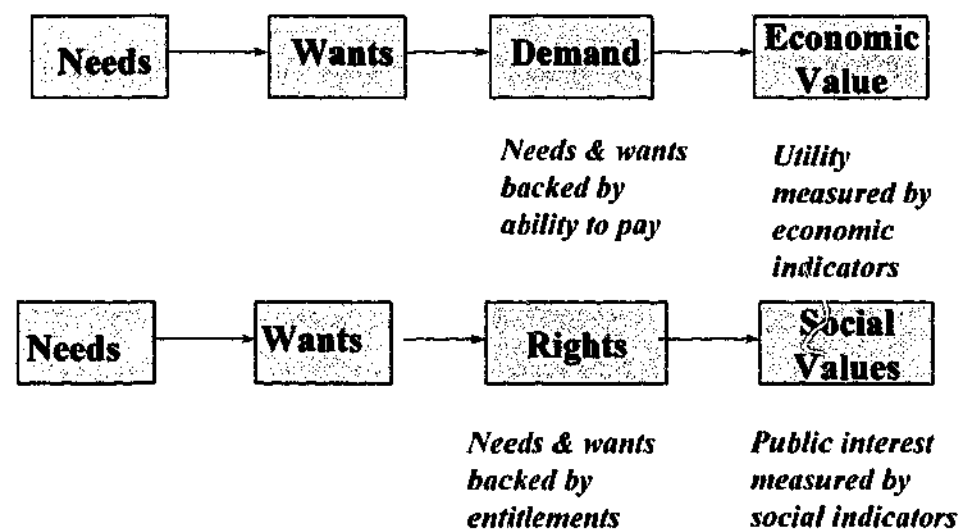
Public accountability: 'Public' is derived from the Latin word for people. Public interest is difficult to define as there are multiple and conflicting views (Perry & Rainey 1988). The nexus between outputs and outcomes is more complex for public service and this requires a different approach to quality standards and indicators for performance reporting. Public funding requires public accountability tests, and this is a fundamental distinction between public and private services.

Rights are central to public accountability, and performance has compliance dimensions (Barrett 1997b). Clients are citizens, and political processes decide access to services. Public accountability for social welfare services is a voice, rather than choice option, based on public rather than private law (Walsh 1995). 'Output' quality resides in delivery processes for services. Transparent eligibility and access decisions

are indicators of process quality for public services. Complaints and redress are measures of process quality (Pollitt 1988; Walsh 1991; IC 1996). Ombudsman, administrative appeal and judicial review processes in Australia provide citizens with avenues of complaint and redress.

Public interest tests are efficiency, effectiveness and equity, that have to be reflected in standards, indicators and information for balanced reporting. Public accountability that includes equity is the fundamental distinction between public and private services. In Coomb's definition of efficiency, discussed previously, economic and social values are different dimensions (RCAGA 1976 Vol. 1, 31-2). Economic value, measured by productivity, captures the allocative efficiency of resources used in outputs and outcomes. Social values measured by the equity, capture distributive efficiency and procedural fairness of outcomes. The difference is illustrated in Figure 3.2 below. The issue is valuing outputs and outcomes. Allocative efficiency relates resources to outputs and is measured by productivity (DoF 1995, 12). Distributive efficiency introduced social values.

Figure 3.2 Economic and Social Values



There is tension between efficiency and effectiveness in the performance management model for private services. In any public management model there is the added tension between effectiveness (results) and equity (processes). Equity issue is a fundamental differentiating value between public and private services. The problem is there is no agreement about how to measure equity. Market equity, compensatory equity and equal outcomes are different models of equity that lead to different performance standards and measures (Crompton & Lamb 1986).

The position reflected in the Audit Office guidelines is that performance measurement needs to be combined with qualitative information. Financial indicators measure costs but ignore the quality of outputs and value of outcomes (Cater, Klein & Day 1992; Talbot 1999). On the effectiveness side, equity indicators and measures, not an issue for private services, are underdeveloped. Service processes (outputs) are intermediate outcome measures. Social policy outcomes achieved by joint program effort increases the complexity of service delivery, so outcomes need to be monitored at different levels. Performance is always contentious for budget-constrained public services. Effectiveness and equity are controversial, and evaluation involves arguments about social justice (Uhr 1989).

Public programs are designed to deal with what are referred to as "wicked problems". Governments become involved because markets fail. Competition is for public funds not customers. Private enterprise satisfies demand, which are needs backed by purchasing power. In contrast, public enterprise satisfies needs backed by access and eligibility criteria. Performance is defined as how well a service meets its objectives. The objectives are usually clear enough – a healthy, literate community able to actively participate in economic and social life – but the links between activities, processes, outputs and outcomes to achieve these objectives are not so clear.

Conceptual ambiguity in the language of performance is one issue. How to resolve the tension between quality and costs in the productivity imperative, in the absence of a bottom line measure of value for public services, is another. Transferring performance measures from private to public services only exacerbates the ambiguity. Performance is complex and contested for public services with multiple stakeholders and this also requires a different approach to measuring efficiency and effectiveness. Economic value is decided in markets systems by customer demand and willingness to pay. Social value

is decided in democratic systems by political processes and distributive equity. The equity in the service profit chain is market equity based on ability to pay (Crompton & Lamb 1986).

Supporters of performance monitoring and measurement claim too much by ignoring goal displacement that results from specification and measurement problems (Merton 1967; Hughes 1994; Owen & Rodgers 1999). Accountability for performance links inputs to outputs and outcomes. Performance monitoring changes the basis of accountability to the criteria specified in standards and indicators. Resource allocation linked to performance indicators has implications for policy outcomes (Carier 1993). This, together with the inherent bias performance monitoring has toward quantitative evaluation, can result in goal displacement (Merton 1967) or tunnel vision (Smith 1993). Critics of measurement are concerned that quantification becomes a substitute for judgement (Gregory 1999; Waldersee 1999).

Critics of performance monitoring also argue standards and indicators derived from the business and economics are based on narrow economic definitions, and do not capture all the dimensions of performance for public services (Walsh 1991; Carter 1991; Pollitt 1988; Kettl 1994). However this ignores the problems that monitoring and measurement are trying to overcome (Painter & Considine 1997). As Pollitt argues (2000, 128):

.. no amount of measurement can solve differences in value, but measurement may help resolve policy debates by making these differences transparent.

3.4.3 Performance paradox: policy outcomes and service outputs

Performance is not a unitary concept (Bouvaird 1996). 'Results-oriented' and 'process-oriented' management are different perspectives on performance (Halachmi & Bouckaert 1996). Ambiguity in the concept of performance and complex relationships in delivery networks for public services has practical consequences for the way quality is defined and reported. The paradox identified in this chapter offers alternative or partial views on performance for public services. The performance paradox identifies the tension between operational efficiency or 'outputs', and program effectiveness or 'outcomes'.

Performance reporting links outputs and outcomes in a production process model. The issue is specifying and measuring quality of service outputs linked to social policy

outcomes. Specification and measurement problems for public services create gaps in performance reporting that limit accountability and responsiveness. The links between outputs and outcomes are complex and value is contested for public services. A production process model of performance management standardises outputs and quantifies quality in order to value outcomes.

However, different definitions of value, separating outputs and outcomes, and standardising and quantifying quality and service units, are problems in performance reporting for public services. Outputs and outcomes are different perspectives on results. Costs and quality are different dimensions of value. Performance measurement is an audit perspective and the logic is conformance and compliance. Performance information is an evaluation perspective and the logic is continuous improvement. A delicate balancing act is demanded as performance reporting is expected to meet the need for quantitative measures and external performance reporting on policy outcomes, as well as for qualitative information and internal reporting on service delivery improvements.

Different perspectives on results explain the performance paradox. Each of the four dimensions of accountability identified in Figure 2.1 requires different information. Funders, providers and clients have different interests in quality and different perspectives on value. There is a basic tension between outputs and outcomes. Monitoring outputs and outcomes does not resolve the tension between efficient use of scarce budget resources and responsiveness to individual client needs.

In theory, balance and clarity in performance reporting overcomes information asymmetry. In practice, separating outputs and outcomes and valuing public services creates specification and measurement problems. Purchaser-provider arrangements separate responsibility for policy and service delivery, and rely on performance reporting to link outputs and outcomes. According to agency theory, efficient design principles to overcome the problem of information asymmetry in contracting are a clear definition of roles and responsibilities, ex ante specification of performance indicators and ex post performance reporting (PUMA 1997b).

In summary, the issues around transfer raised in this chapter concern the relationship of quality to value and evidence of performance for public services. In theory performance

reporting links the cost and quality of service delivery outputs to public policy outcomes. In practice the relationship between costs, quality and value is complex for public services, and this explains the confusion about efficiency and effectiveness criteria and performance information. Performance has output and outcome dimensions. The difficulty of specifying quality of outputs, linked to policy outcomes, adds to the problem of separating and assigning responsibility identified in Chapter 2. Separating efficiency and effectiveness in a production process model can create gaps in reporting that limit accountability and responsiveness.

3.5 Conclusion

Information is the foundation of performance reporting, which is the practical expression of accountability and provides the evidence of results. Two decades of budget and financial and management reform have changed performance reporting, and in the process elevated productivity and performance measurement. Despite the claims of reduced central control (Barrett 2000, Moore-Wilton 1999a), performance reporting is changing strategic control of resources from departments to central agencies, which earlier managerial techniques failed to do, by capturing control of the evaluation agenda (Henkel 1991; Zifcak 1994). Performance monitoring narrows the evaluation agenda by changing the basis of accountability from qualitative to quantitative judgements (Pollitt 1990a; Hood 1990; Zifcak 1994). Performance measurement and audit are becoming the preferred methods of accountability for public management in many NPM heartlands including Australia (Pollitt 1990a; Henkel 1991, Hood 1991; Zifcak 1994).

Balanced performance reporting requires information on outputs, or efficiency, and outcomes, or effectiveness (Pollitt 1999). Clarity in performance reporting requires specification of costs and quality, and links between outputs and outcomes. However, the links between outputs and outcomes are complex, and values are contested for public services. Social value, collective decisions and public accountability are 'public' attributes that change the nexus between costs, quality and value, and this requires a different approach to performance reporting. Social impact and distributional equity are 'bottom line' indicators of value for public services (Carter, Klein & Day 1992).

Performance is not a precise concept, and even the managerialists recognise there is no single measure for public services (PUMA 1994). Performance criteria in the public

domain are broader and different from those in the private sector (Self 1993; Stretton & Orchard 1994). Efficiency, effectiveness and equity are 'bottom line' values for public services that require value judgements of some kind (Stretton 1999). Efficiency, 'doing more with less' in managerial rhetoric, relates costs and quality to performance improvement. Efficiency improvements are achieved by reducing costs and maintaining quality, or, by increasing quality and keeping costs constant. Equity requires a minimum level of service quality and quantity (Crompton & Lamb 1986). Equity improvements are achieved by better access to services, delivery that is responsive to clients needs, and complaint and redress processes (Wilenski 1986). Separating efficiency and effectiveness is difficult for public services and quality has equity dimensions. In practice, separating outputs and outcomes can lead to gaps in reporting that limit accountability and responsiveness to clients.

Efficiency, effectiveness and equity criteria are defined in performance standards and indicators, which are different reporting mechanisms. Specifying indicators *ex ante* and monitoring results *ex post*, and setting minimum standards and auditing compliance are different approaches to performance reporting to minimise contract failure (IC 1996). Monitoring results, for example benchmarking, and compliance with standards, for example quality assurance, provide different information on quality. Specification problems explain gaps in performance reporting that limit accountability for policy outcomes and responsiveness to clients needs.

Performance information is fundamental to quality improvement techniques such as benchmarking and customer service standards. Measurement and qualitative evaluation are different means of judging success. (World Bank 2000; Pollitt 2000). What counts depends on the information selected for performance reporting, and qualitative measures and quantitative information provide different evidence about quality. Measurement problems explain gaps in performance reporting that limit accountability for policy outcomes and responsiveness to clients' needs.

The changing stance in guidelines for performance reporting suggests the definition of quality has narrowed to outputs, and judgements are made using quantitative measures. In the new performance management framework, costs and quality are standardised and quantified. However, quality is more difficult to specify and measure than costs. Furthermore, quality raises the possibility of conflict between the values of different

groups with an interest in performance (Walsh 1995). This is reflected in debates is about the relative merits of qualitative measures and external reporting for responsiveness to policy priorities, compared to qualitative information and internal evaluation for responsiveness to the needs of clients.

This chapter has considered the link between quality and value for public services. Clarity and balance in performance reporting is difficult for public services. Effectiveness and equity are harder to define and measure than efficiency. Linking outputs to social outcomes is difficult in complex delivery systems for public services, and even where the links are clear quantification can be difficult. In the words of DoFA (2000a, 36), "the balance or point of equilibrium between price, quantity and quality is elusive".

Specification and reporting on quality has implications for accountability and improving service delivery. The practical issues are specifying quality in standards and indicators, and information for performance reporting. Quality indicators and measures, such as customer satisfaction indexes, are being included in program evaluation and performance reporting by public sector managers. Quality is a variable that is standardised and quantified in a production process model of performance management. However, there is more agreement about measuring costs than quality for public services. This is because there are different perspectives in management about how to define and measure quality for services. Therefore the next chapter considers the issue of defining and reporting on quality for services.

THE QUALITY VARIABLE FOR SERVICES

4.1 Introduction

Clear specification of quality in service agreements and contracts, and balanced reporting, are fundamental to coordination and control in fragmented delivery systems. Quality has been defined as responsiveness to the individual needs of clients, and the intent of reforms is to increase "accountability to and control by clients" (OECD 1987, 32). To this end, quality improvement techniques have been taken from business to change the focus of delivery to a customer-orientation (OECD 1987; Hood 1991; Hughes 1994; Pollitt 1995; PUMA 1996b & 1997b). Osborne & Gaebler's (1992) *Reinventing Government* was instrumental in transferring the powerful 'customer' metaphor to public services. The argument is that a more managerial and marketing mentality will increase productivity and responsiveness (OECD 1987, 125; MAB-MIAC 1992; MAB 1997). QA, TQM, benchmarking and customer service standards are different approaches to (Gaster 1996; Pollitt & Bouckaert 1996; PUMA 1996b).

Quality is always contentious for budget-constrained public services. The productivity imperative is clear, but there is no agreement about how to define and measure quality. Quality has been part of the management agenda since the ascendancy of the TQM movement in the 1970s. Accreditation schemes, benchmarking, service guarantees and service excellence awards are quality improvement techniques from business that have been applied to public services. However, quality improvement initiatives have not been central to reform in the APS (Trosa 1996). Indeed there was no centrally coordinated service quality initiative until the introduction of Service Charters by the Howard Government in 1997. Devolution of responsibility for quality improvement in part explains the diversity of approaches in practice.

Another part of the explanation is confusion about what quality is, and how it should be defined and reported. Confusion about quality and its relationship to value starts in management theory and practice. As Holbrook (1994) observed, the nature of service quality 'currently wallows in a sea of confusion'. Despite the preoccupation of marketing and management researchers with quality since the early 1980s, the precise nature of quality and its relationship to performance is still the subject of considerable debate (Rust & Oliver 1994; McGuire 1999 Chapter 6; Zeithaml 2000). The practical

consequence is different definitions of quality in a plethora of improvement techniques, and taking these into the context of public services only exacerbates the confusion.

Balance and clarity in performance reporting requires specification of the quality of service outputs linked to policy outcomes. Quality is defined in standards and indicators based on techniques taken from business and applied to public services (DoF 1995a). However, the path of transfer of ideas about quality improvement is not captured in a public/private dichotomy, and manufacturing and services are different perspectives on quality applied to public services. Different definitions of quality in standards, indicators and information change the balance in performance reporting. So this chapter examines specification and measurement of quality for services. This has to be understood in the broader context of different approaches to quality in management.

Section 2 examines the timing and sequence of quality initiatives in the APS, in the historical context of management improvement reforms, both internationally in the NPM policy community and in Australia. Although responsiveness to clients' needs has been a consistent theme in the path of change described in Chapter 2, Australia has been a laggard in the NPM heartland on service quality initiatives (MAB-MIAC 1992; PUMA 1996). There was no central initiative until the introduction of Service Charters in 1997. Two decades of devolution of management improvement explains the diversity of quality improvement frameworks. National accreditation schemes, benchmarking results, Audit Office performance audits and service charters explain the growth in information about quality associated with performance management and contracting.

A consistent theme in the reports and evaluations since the Coombs Report has been the need for the providers of public services to be more responsive to clients. So along with quality improvement techniques from business came the language of customer service. Customer orientation in the context of public services is usually identified as improving the level of service to users (DoF 1995a; OECD 1996). The rhetoric of client responsiveness is 'doing it nicer', and customer service techniques have been transferred from business management to public services.

Section 3 examines the ideas from management that have shaped policy frameworks and implementation guidelines. Many agencies have had a hand in shaping implementation guidelines. Devolution of management improvement to agencies, and

the advisory role of MAB-MIAC, have meant there has been no key agency directing the path of change. Reports and implementation guidelines reflect a diversity of approaches drawn from business, including customer service standards, benchmarking best practice processes and results, service charters and service excellence award schemes.

However, the transfer of ideas about quality improvement is not captured in a public/private dichotomy. On the private side, manufacturing and services are different perspectives on quality (Gummesson 1994; Grönroos 1994). TQM is a production process model that introduces quality, defined by customers, into the performance equation (Silvestro 1998). Total Quality Service (TQS) is a service process model that introduces process consumption by customers into the performance equation. The Service Profit Chain introduces the economics of quality into the performance equation.

Section 4 considers the quality improvement techniques that have been transferred to the context of public services. The issue is different definitions of quality and complex provider-client relationships for services. Confusion about the nature of quality, and its relationships to performance for services, has practical consequences for public services. QA, customer perceptions of service quality and Results are three different definitions of quality and approaches to performance reporting. QA is based on external certification or accreditation, and quality is defined by attributes. Customers' perceptions are based on monitoring views on service delivery, and quality is defined by attitudes. Results is based on monitoring performance outcomes against the service provider's objectives, and quality is defined by value.

The social paradox (Poole & van de Ven 1989) identified in this chapter reflects ambiguity in the concept of service, that confuses specification and reporting on quality. Service has a diversity of meanings that leads to confusion between service products, processes and customer service (McGuire 1999; Johns 1999). From a marketing perspective services are products, and from a management perspective services are processes. 'Services' is used to identify a particular class of products or processes that is distinct from goods or manufacturing processes. 'Customer service' describes a competitive strategy to differentiate products, whether these are goods or services.

Specification relies on agreement about the definition of quality (Grey & Jenkins 1998), which is a problem that originates in the management literature. Customer satisfaction, quality and customer service are distinct but related concepts that create confusion. Customer satisfaction is a measure of value. Customer satisfaction, based on the weighted average of multiple indicators, is used to compare different services and service providers (Fornell 1992; Fornell *et al* 1996). Quality is one dimension of value, costs is another.

Quality can be defined by service attributes, attitudes and values. Service quality has technical and process dimensions. Technical quality is a production process perspective. The logic is service outputs that conform to standards, and reliable service delivery is a measure. Process quality is a consumption perspective. The logic is customer service that satisfies expectations, and satisfaction with process attributes of service delivery is a measure. Clarity in performance reporting requires suitable indicators and measures that capture the elements of technical and process quality for services. Balanced performance reporting requires information on technical and process quality from the perspective of providers and customer/consumers. In practice, different definitions of quality that create specification problems, and the technical difficulties of measurement, are exacerbated in the transfer from business to public services. This explains gaps in reporting on quality that limit accountability and responsiveness.

As discussed in Chapter 2, while NPM has been described as a cultural revolution, the shift to performance measurement and contracting in Australia has been evolutionary over three decades. Quality has been part of the devolution of responsibility for management improvement to agencies, and approaches have been influenced by ideas circulating in the NPM policy community. Despite drawing from a similar toolkit of quality improvement initiatives, significant differences in timing and context have resulted in divergent strategies, in contrast to other NPM heartlands (McGuire 2001). So the next section begins by examining the broader historical context of service quality initiatives in the NPM policy community. This is followed by an analysis of change in Australia.

4.2 The quality crossroads

The origins of the quality movement in the public sector have been traced to the Reagan Administration's Productivity Improvement Program, introduced for Federal agencies in 1988 in the USA, and to the Charter introduced and championed by the Prime Minister John Major in the UK in 1991 (Bendell, Boulter & Kelly 1994). However, Garbor (2000) has argued that the quality movement in the US was a backlash against the financial orientation and limitations of quantitative techniques taken from Ford into the Kennedy and Johnson Administrations. Robert McNamara had pioneered quantitative methods as the solution to quality problems at Ford, and took this rational analytical perspective of quantitative methods to public services via the Defence Department. In contrast, the Citizen Charter program introduced by the Major Government in the UK pioneered the application of consumerism to public services (Pollitt 1994; Walsh 1994). This started an international trend, with adaptations in the USA, Canada, France, Belgium and Italy (PUMA 1996b; DoFA 1999; Osborne & Plastrik 1997).

4.2.1 International movements

Experiences with service quality initiatives have been shared in the NPM policy community, facilitated by the OECD's PUMA, and as discussed in Appendix F, there is evidence of policy transfer (Common 1998; Dolowitz 2000; Dolowitz & Marsh 2000). A clearly articulated philosophy of managerialism and consumerism has driven reform, particularly in the NPM heartlands (Kettl 1994; Pollitt 1990a; Walsh 1994; Schick 1999). However, comparative case studies provide evidence of diversity in practice between countries, even within the NPM heartland of the UK, USA, Australia and New Zealand, reflecting differences in timing, reform strategies and political and institutional contexts (Pollitt 1995; PUMA 1999a).

PUMA reports also provide evidence of considerable ambiguity in the concept of quality and a change in the language from clients to customers. Quality is generally equated with service delivery rather than service outcomes (PUMA 1994), and the components identified include timeliness, accessibility, convenience and appropriateness or suitability (PUMA 1998b). A wide range of initiatives under the rubric of 'service quality' include consultation mechanisms, setting service standards, the provision of information to citizens and clients, choice of provider, complaint and redress mechanisms, quality management and quality awards (PUMA 1998b).

Administration as Service, Public as Client, a landmark OECD report, explicitly equated the idea of responsiveness with the discipline of marketing and management (OECD 1987). PUMA country studies have tracked implementation service quality initiatives (PUMA 1995; 1996a; 1996b & 1997b). Although based on self reporting, the studies still provide evidence of a profound shift in language and policy decisions, especially heartland NPM. TQM, service charters and benchmarking reflect the language and techniques of business.

A Symposium *Service Quality Initiatives*, in 1995, was the highpoint of PUMA's program on quality. Responsiveness was identified as a key determinant of value for clients of public services. The report discussed four dimensions of client responsiveness: clear and open lines of accountability and control; meeting clients' needs within the framework of policy; ensuring convenient access to services, and encouraging active participation in service delivery (PUMA 1996b). Based on these case studies, five issues for service quality initiatives were examined:

1. role of client choice;
2. extent of client consultation and participation;
3. effective use of complaint and redress mechanisms;
4. provision of information on services, particularly the measurement of and accountability for service performance; and,
5. impact of service quality initiatives on inter-governmental relations.

Shand & Arnberg (1996) identified a continuum of client involvement and discretion in service delivery from information, through consultation, partnership and delegation to control. The real test of service quality initiatives is whether they are raising the standards of service delivery (PUMA 1996b). A diverse array of initiatives, including TQM, BPR, decentralisation or devolution, separating policy and service delivery, competition and choice have been introduced in the name of service quality and client responsiveness (PUMA 1996b). Formal complaints and redress mechanisms are fundamental to a client focus (PUMA 1996b).

Until 1998, PUMA's policy focus was public management and service delivery. In October 1999, the Committee adopted a new mandate and name that shifted the emphasis from public sector management towards broader issues of governance.

Service quality is no longer a separate item in the work program but has been subsumed in the work of the e-government program (PUMA 1998b).

PUMA has not been the only, and perhaps not the most significant influence, on the increasing customer-orientation of public services. Consultants have also played an active part in cultural change. Customer-driven government was one of ten principles of *Reinventing Government* (Osborne & Gaebler 1992). This became a cult text for practitioners in government in much the same way as *In Search of Excellence* (Peters & Waterman 1982) did for private sector managers a decade earlier (Rhodes 1994). David Osborne, a consultant, was an enthusiastic promoter of cultural change and prepared to travel internationally, including to Australia. In *Banishing Bureaucracy* Osborne & Plastrik (1997) advocated three approaches to making public agencies accountable to customers:

1. customer choice between public providers;
2. competitive choice with resources tied to customer choice between competing providers; and,
3. quality assurance by setting customer service standards, and rewarding or penalising performance against these standards.

A philosophy of managerialism and consumerism has driven reforms in NPM heartlands, (Pollitt 1998; Kettl 1994; Walsh 1995; Schick 1999), and this is evident in PUMA case studies of service quality initiatives to change the focus of service delivery to 'clients' and 'customers' (PUMA 1995; 1996a; 1996b & 1999). Ministers attending a 1999 symposium argued for "the necessity of improving service delivery by treating citizens more like customers" (PUMA 1999a, 2).

Three strategies to make service providers more responsive to clients as consumers are evident in the PUMA case studies (PUMA 1995; 1996a; 1996b; 1999). The first is contestable service delivery and competition between service providers to give consumers greater choice. Purchaser-provider arrangements and contracting that separates funding and service delivery are examples. A second strategy is giving consumers a stronger voice through consultation, formal satisfaction surveys, and complaints and redress mechanisms. A third strategy is including consumers in formal accountability mechanisms such as mandated service standards and external performance measurement and reporting. Consultation and direct accountability to

clients are a substitute for competition and choice, intended to make providers more responsive to users.

In practice, comparative studies reveal considerable diversity, even within the NPM heartlands between the UK, NZ and Australia (PUMA 1997a; Pollitt & Bouckaert 2000). Although responsiveness to clients needs has been a consistent theme since the Coombs Report, Australia has been a laggard in the NPM heartland on service quality initiatives (MAB-MIAC 1992; PUMA 1996). This contrasts with Australia's position as a leader in performance measurement and reporting (PUMA 1997b). The timing and sequence of change in Australia is explained by three decades of management improvement reform at the Commonwealth level. Table 4.1, on the next page, provides a summary of the main quality improvement initiatives and reports in the context of the three phases of reform identified in Chapter 2.

4.2.2 Responsiveness to clients

Changing the culture of agencies responsible for delivering public services, to make providers more responsive to the needs of clients has been a consistent theme in reports since the RCAGA. The Coombs Report, in Chapter 6 *The Administration and the Community*, investigated community access to services in a major research project entitled 'Access Research Program' (RCAGA 1976). What was probably the first major survey of the problems experienced by individuals in their encounters with government institutions was reported on in considerable detail. The Coombs Report observed (RVAGA v1, 128):

Possibly the most universal complaint from users of the services surveyed was about the time involved: time taken to receive attention; time taken to get matters sorted out when something had gone wrong; and time elapsing before the service applied for was delivered.

Under the prescient heading *Responsiveness in the Administration*, the Coombs Report argued (RVAGA v1, 137):

We consider officials can and should make a better job of listening to members of the community, of advising their minister on what they hear and responding to it themselves.

Table 4.1
Context: Devolution and Quality Improvement in the APS

| Phase | Reports, Administrative and Legislative Reforms | Quality Improvement Initiatives and Evaluations |
|--|--|---|
| L'ANCIEN REGIME – AMINISTRATIVE LAW REFORM | | |
| 1972-1975 Whitlam Labor Governments | | |
| 1975-1983 Fraser Conservative Coalition Governments | RCAGA Report (1976) Administrative Appeals Tribunal Act 1975 Ombudsman Act 1976 Freedom of Information Act 1981 | Chapter 6 <i>Administration and the Community</i> Access Reach Program staff and client survey Appendix 2C <i>Access to Government Services</i> North-West One-Stop Welfare Centre Coburg Office of the Commonwealth Ombudsman |
| MANAGERIALISM – PERFORMANCE MANAGEMENT | | |
| 1983-1991 (Dec) Hawke Labor Governments | FMIP 'Managing-for-Results' PMB Program Evaluation | Devolution of management improvement to agencies |
| 1991-1993 (Mar) Keating Labor Government | COAG established 1992 | FMIP Evaluation Task Force Report (1992) Chapter 9 <i>Serving the Public</i> Client and employee surveys |
| CONTRACTUALISM – MARKET TYPE MECHANISMS | | |
| 1993-1996 (Mar) Second Keating Labor Government | COAG National Competition Policy Agreements (1995) | <i>Quality for our Clients</i> (Finance Working Group Report 1993) <i>Keeping the Customer Satisfied</i> (HRSCBFPA 1995) <i>Service Delivery by the APS</i> (Senate 1995) ANAO Performance Audits (1996) <i>Client Service ATO</i> <i>Customer Service DSS</i> |
| 1996-1998 First Howard Conservative Coalition Government | Performance Improvement Cycle (1997-98 Budget) Financial Management and Accountability Legislation 1997 | <i>The Quality in Customer Service Package</i> (MAB/ANAO/DIST 1997) Commonwealth Government Service Charters (1997) <i>A Good Practice Guide for Complaint Handling</i> (Ombudsman 1997) |
| 1998-2001 (Nov) Second Howard Conservative Coalition Government | Public Service Act 1999 Accrual-based outcomes and outputs budgets from 1999-2000 | |

The Commission also sponsored a pilot program for what was probably the first 'one-stop shop'. The North-West One-Stop Welfare Centre (NOW), in Coburg Victoria, was funded by RCAGA as an 'action research' venture. This was a cooperative arrangement between the Commonwealth Department of Social Security, Victorian Department of Social Welfare, local councils and voluntary agencies.

The other major development in the period to 1983, as discussed in Chapter 2, was the package of administrative law reforms that established standards for fair administrative processes in public agencies, and avenues of complaint and redress for individuals. The Office of the Commonwealth Ombudsman was established "to promote fairness and transparency in the way bureaucracy went about its business and treated individuals" (Smith 1997, 1).

Managerialism brought the language and techniques of quality management from business to public services. Quality was part of the management improvement agenda devolved to agencies under the FMIP. Evaluation of the FMIP in *The Australian Public Service Reformed* tackled the issue of appropriate 'models' of quality for the APS, and reported on a range of approaches including TQM, TQS and marketing (MAB-MIAC 1992). The report did not consider the wider issues of service delivery in a federal system canvassed by the Coombs Report. This was also the first major report to define clients of public services as customers (MAB-MIAC 1992). The first substantive client surveys since the Coombs Report, revealed low expectations of the quality of public services. In Chapter 9 *Serving the public*, the Task Force on Management Improvement concluded that this remained a major challenge after a decade of reform and argued (MAB-MIAC 1992, 30):

A focus on clients provides a practical way to foster responsiveness in APS service delivery.

4.2.3 Quality in customer service

In management, the 1990s have been described as the 'quality decade' in business (Brown, Fisk & Bitner 1991 & 1994; Garvin 1995), and managerialism transferred this language and techniques to public services. A working group of Commonwealth and State public servants teamed with private consultants, including the Vice President of the Australian Customer Service Association (ACSA) and David Shand, a former

Finance official, from PUMA. A project team was led by Dr Sylvie Trosa and supported by the Management Improvement Division of Finance. *Quality for our Clients* (DOF 1995a) presented the report of the project team and papers from a related conference. This report also recommended that quality should become part of performance information systems.

The report examined quality from 'a public sector perspective' and the recommendations essentially called for balance between the different views on quality. In the context of performance measurement, the report recommended quality should be outcome as well as output oriented (DoF 1995a, 4). Whilst the terms 'quality standards' and 'indicators' are used interchangeably, the report highlighted the balance to be struck between professional, client and outcomes or effectiveness evaluations of quality. Professional standards/indicators evaluate technical criteria, service delivery standards/indicators evaluate client relationships, and outcomes or effectiveness standards/indicators evaluate results against program objectives.

What is evident is a diversity of quality initiatives and associated definitions from business that have been applied to public services. In the opening speech to the conference, the Secretary of the Department of Finance argued (Sedgwick 1994, 83):

... convergence of management philosophy of the public and private sectors is not a reflection of fashion or ideology, but rather reflects a shared philosophical commitment to supplying efficient and effective outcomes and outputs.

The Management Improvement Division of Finance disappeared in the 1997 restructure of Finance. No doubt reflecting the new government's priorities, a CTC Branch was created and a distinct shift in the stance of Finance is apparent in policy guidelines. Finance clearly stated in *Quality for our Clients* (DoF 1995a, 2):

In the context of performance measurement, quality is not only about having a focus on standards of service delivery but also about outcomes.

MAB carried forward the management improvement agenda, defining quality in *Beyond Bean Counting*, MAB (1997, 120) as:

the characteristics by which an organisation, product or service is judged by customers and stakeholders. Assessment of quality involves the use of information gathered from key interests (possibly including citizens, direct and indirect consumers, staff,

professionals and government) to identify the differences between the expectations and experiences of users.

Contractualism has been a catalyst for quality improvement initiatives, and these have taken a number of different forms. National accreditation schemes have tied program funding to quality audits. The Commonwealth Health Accreditation and Standards Program, Community Health Accreditation and Standards Program, and programs regulated by the National Childcare Accreditation Council and Aged Care Standards Accreditation Agency are examples. Services providers are assessed against expected outcomes that include client service standards, and in some cases providers are required to participate in quality certification programs (IC 1996).

Service charters were introduced in 1997 to improve 'customer service' in Commonwealth agencies (PSC1999). This was the first and only coordinated service quality initiative for APS agencies. In a related initiative the Ombudsman, with support from the ACCC, developed standards for complaint handling (CO 1997b).

Central agencies have looked to consultants for assistance in developing guidelines and transfer of business techniques is evident in the better practice guides. The Audit Office Performance Audit, *Customer Service Department of Social Security* contracted a private consulting firm specialising in 'customer service capabilities' to develop audit criteria. The TPC and Ombudsman sponsored a national survey of consumer complaint behaviour in Australia (AMEX-SOCAP 1995a & 1995b). MAB published *The Quality in Customer Service Package* which included a report *Quality in Customer Service in the Australian Public Service* (MAB-DIST 1997a), and two guidelines prepared in consultation with the Audit Office and DIST (MAB-DIST 1997b; MAB-ANAO). *The Toolkit: Quality in Customer Service Package* set out five best practice principles for quality customer service taken from business (MAB-DIST 1997a):

1. creating a customer service environment;
2. linking customer service with human resource management;
3. communicating with the customer;
4. becoming a customer-friendly organisation; and,
5. continuing to improve programs, products and customer service.

Together with Service Charters, this package elevated customer service in the quality improvement agenda.

Contracting has elevated the language of economics and productivity. As discussed in Chapter 3, an economic perspective on quality as a variable that can be standardised and quantified is reflected in the *Outcomes and Outputs Framework Guidance Document*, prepared by the CTC Branch of Finance (DoFA 2000b). In direct contrast to the stance in *Quality for our Clients* (DoF 1995a), quality is clearly separated from effectiveness and defined as the "specific, immediate characteristics of an output that are not encompassed by price or quality" (DoFA 2000b, 36).

Contracting, and an outcomes and outputs budget framework, compel agencies to specify units of service and to define and measure costs and quality. The need to specify quality has brought to the surface the issue of different definitions and a plethora of frameworks for performance reporting. The Audit Office explicitly recognised the problem in its *Contract Management Better Practice Guide* (ANAO 2000, 49):

Quality performance measurement is the most difficult aspect of contract management. The task can be made easier by defining quality as 'conformance to requirements'. A product or service either meets its requirements or it does not. However, before quality objectives can be met, requirements need to be accurately specified and communicated to the provider. Service quality is best determined by establishing which attributes of the service are considered important and how well they should be performed.

As discussed in Chapter 3, performance audits and new reporting requirements explain increased reporting on quality, intended to increase public accountability. In contrast to the Auditor-General and the Audit Office, internal auditing by the Public Service Commissioner (PSC) and the PSMC relies on agency evaluations and reporting. Client surveys have become part of performance audits (ANAO 1996a&b) and evaluations (Kemp 1998; PSC 2000). However, there were no consistent performance reporting requirements until the introduction of Service Charters in 1997. In response to a survey of client service improvement strategies, conducted by the PSMPC, 30% of agencies either did not respond, or provided no information (PSC 2000).

In contrast to the performance measurement story in Chapter 3, the story of quality improvement that has evolved since 1983 has been diversit, reflecting devolution to agencies. MAB, as the lead agency responsible for coordinating management

improvement, had only an advisory role. This contrasts with the central role of Finance in budget reform, and in part explains why productivity has taken precedence over quality in performance reporting.

Performance management and contracting have changed the emphasis from processes and internal evaluation to external auditing and measurement, and this explains the growth in reporting on quality. The language in reports and implementation guidelines has consistently stressed the need for agencies to include quality in performance information, and to balance costs and quality in management improvement. However, cost cutting efficiency dividends have been systematically applied across programs. In contrast, quality initiatives, with the exception of Service Charters have been program specific.

Responsiveness to users of public services is an enduring theme that links contracting and managerialism to recommendations in the Coombs Report. However, the means has changed from centrally coordinated administrative law reform in the 1970s, to a plethora of approaches from 1983, reflecting the devolution of management improvement to agencies under the FMIP. The mix of programs reflects not only devolution of quality improvement to agencies, but also a range of ideas about quality on offer in management. A smorgasbord of improvement techniques and associated definitions of quality has been applied public services.

As discussed in Chapters 2 and 3, a mix of ideas from economics and business has shaped policy frameworks and implementation guidelines. Economics offers a relatively coherent approach based on assumptions about the superiority of market exchange relationships, competition and choice. This is reflected in the stance in IC/PC reports that argue quality assurance and benchmarking are second best solutions in the absence of competition and choice (IC 1996).

In economics, quality is a product attribute and quantitative variable. As discussed in Chapter 3, a production process model assumes quality can be standardised and quantified. Although the language of economics does not generally distinguish manufactured goods and services, 'team production' is recognised as a problem in contracting (Alchian & Demsetz 1972). As explained in Chapter 3, team production describes the case where "the product is more than the sum of separable outputs of

cooperating resources". This is a specification problem, and the practical effect is that monitoring input activity is the only, or a better way of judging the output effect.

In contrast to the relative coherence of economic principles, management theory and practice consists of contrary propositions that reflect different perspectives on basic concepts, and this is particularly evident with respect to quality. A fundamental proposition in business management is that quality is of strategic importance and therefore has to be measured, in order to be managed (Garvin 1988). However, there is less agreement about how this should be done. The next section examines the origins of the ideas about quality that have been taken from management.

4.3 Ideas from manufacturing and services

The starting point for thinking about quality has been the 'quality gurus' in business (Gaster 1996). Three strands can be identified in the volumes written on quality. One is TQM (Deming 1986), and its extension in 'business excellence' (Garvin 1994) and 'learning organisations' (Senge 1990), which advocate continuous improvement and elevate customer attitudes to a central place in quality management. The TQM literature is practitioner oriented, consultancy driven and spans more than 50 years (Silvestro 1997). Whilst characterised by differences and conflicting views (Silvestro 1997), TQM is essentially a production process model that introduces quality, defined by customers, into the performance equation (Garbor 1990). Quality is defined by conformance to specifications designed to achieve fitness for use by customers (Silvestro 1997). A second strand has emerged since the 1960s, from management and marketing research on service industries and businesses, and starts from the proposition that services and manufacturing are different contexts. Quality definitions and measures developed for manufacturing ignore provider-consumer interactions in service delivery. Services are characterised by process consumption (Grönroos 2001), and this changes the nexus between outputs and outcomes, and provider-customer/consumer relationships. Total Quality Service (TQS) changes the focus in the performance equation to customer service (Albrecht 1990). A third strand, linked to the customer retention research in marketing, has introduced new ideas about the profit impact of investments in quality. The Service Profit Chain introduced the economics of quality into the performance equation. TQM, TQS and the Service Profit Chain are different approaches to defining and reporting on quality.

4.3.1 TQM: customer focused continuous improvement

The origins of quality management are in statistical process control for manufacturing in the 1920s (Bendell, Boulter & Kelly 1994; Garbor 1990). Sometimes referred to as the Japanese management method, TQM is attributed to W. Edwards Deming's (1986) philosophy of eliminating variations in product quality by controlling production processes. The Deming Prize institutionalised total quality control and continuous improvement as the basis of the Japanese quality revolution in the 1970s. The objective of TQM is reliable processes that deliver consistent quality to customers, described variously as 'fitness for use', 'customer satisfaction', or 'doing the right things'.

Deming's (1986) philosophy is based on six principles, the first of which is that quality is defined by the customer. This moves the focus to effectiveness as defined by customers. Garbor (1990, 5) in a biography of Deming's life and philosophy, described the system as follows:

Deming's system, known as Fourteen Points, ties together disparate process-oriented management ideas into a single, holistic vision of how companies can anticipate and meet the desires of the customer by fostering a better understanding of the "process" and by enlisting the help, of every employee, division, and supplier in the improvement effort.

This philosophy requires a fundamental change from the practice of controlling and reducing quality variation by inspection for quality defects after production, to building quality into production processes. The business imperative is that quality determines customer satisfaction and profitability and therefore should be the first priority of enterprises.

TQM combines Crosby's internal 'conformance to requirements' and Juran's external, 'fitness for use' approaches (Gummesson 1998b). The contribution of TQM has been linking internal, technical aspects and production to external, customer aspects and marketing (Gummesson 1998a & 1998b). TQM encouraged systematic approaches to quality improvement, quality audits, benchmarking quality standards and measurable indicators linking quality to bottom line profitability. In short, quality became a strategic concern in business. The experiences of Xerox, Motorola and Ford have provided best practice benchmarks for business and public services (Garvin 1988; Bendall, Boulter & Kelly 1994).

In contrast to strategic planning and financial control, TQM is a bottom-up improvement program that calls for devolution of responsibility. In practice, the concept of accountability in TQM, and in an economic model of the firm based on agency theory, are inherently incompatible (Grant, Shani & Kirshnan 1994; Kettl 1994). TQM and economics start from fundamentally different assumptions about objectives. In an economic model of the firm the objectives are to maximise profits and shareholder value. In contrast, TQM elevates customer satisfaction on the assumption that profits flow from this (Grant, Shani & Kirshnan 1994).

Performance reporting is central to agency relationships in an economic model, and to continuous improvement in TQM. However, the perspective on control is different (Grant, Shani & Kirshnan 1994). In the economic model performance information and reporting is critical for control, to prevent shirking. Under TQM, performance information and reporting is critical to provide feedback to employees motivated to pursue organisational goals. Deming's emphasis on the trustworthiness and professionalism of employees has its roots in the human relation theory of management (Deming 1986; Garbor 1990).

As quality became a strategic issue in the 1990s, attention switched to award schemes designed to promote excellence through benchmarking (Garvin 1984). Benchmarking is essentially a method to measure and improve performance. The Australian Quality Council (AQC) established in 1990, developed the Australian Business Excellence Framework, and administered the Business Excellence Awards until its demise in 2002. (The AQC has become Business Excellence Australia, a Division of Standards Australia Ltd.). The framework is similar to the Malcolm Baldrige National Quality Awards introduced in the United States in 1987, and the European Foundation for Quality Management Business Excellence Models introduced in 1992. The AQC was instrumental in the service excellence awards developed as part of the Service Charters program, considered in the case study in Chapter 7.

TQM seeks greater responsiveness to the needs of customers by continuous improvement in quality (Kettl 1994 & 1996). However, TQM and the Business Excellence framework do not make any distinction between the manufacturing and services contexts. Manufacturing and services are different paradigms within management (Grönroos 1994). Services management starts from a fundamentally

different perspective on process and this requires a different approach to defining and reporting on quality.

4.3.2 Service quality: processes consumption

The distinction between processes and outputs in manufacturing does not apply to services. Outputs from manufacturing processes are tangible products that lead to outcomes for consumers and providers. Grönroos (2001, 150) defines a service as "a process that leads to an outcome during partly simultaneous production and consumption". The 'moments of truth' metaphor (Normann 1984) focused attention on quality in direct provider-consumer interactions and, compared to TQM, this provides a different perspective on customer orientation. Whilst distinctive service management techniques have developed, the services management literature has carried forward the mantle of measurement to manage quality (Silvestro 1997).

Three characteristics of services that make defining and measuring quality inherently more difficult are summarised in Table 4.2 on the next page. In contrast to tangible products, service outputs are intangible processes that are experienced by consumers. Production and consumption are not separate, and services create value in delivery processes that are experienced by consumers. Direct interactions between providers and clients in service delivery affect the costs and quality of outputs.

Intangible experiences: The distinction between processes and outputs in manufacturing does not apply to services, and this explains specification problems. Outputs from manufacturing processes are tangible products that lead to outcomes for consumers and providers. Service outputs are processes and intangibility creates uncertainty about quality. Services have technical and process qualities or features (Grönroos 1990 & 2001). Technical qualities relate to what is delivered, or the output. Process qualities relate to the way services are delivered, or customer service. A service process model measures technical qualities against reliability indicators, and measures process qualities against satisfaction and complaint indicators. Intangibility also creates uncertainty about the value of outcomes for customers/consumers (Shostack 1977; Zeithaml 1981). A service process model overcomes the problem by measuring the value of outcomes using customer satisfaction and sales revenue (Smith 1993).

Table 4.2
Service Characteristics and Quality Issues

| Characteristic | Issues for defining and reporting on quality |
|---|---|
| Intangible experiences Outputs of service delivery are processes rather than tangible products. | Consumers evaluate quality by comparing expectations and delivery experience. Service quality has <i>technical</i> (what) and <i>process</i> (how) dimensions. Service providers and customers/consumers use different information to evaluate quality. |
| Coproduction Production and consumption are not entirely separate in time | Process consumption makes separating outputs and outcomes is difficult. |
| Consumers participate to some extent in delivery. | Motivations and willingness of consumers to participate in service delivery affects costs, quality and value. |
| Direct provider-consumer encounters Service delivery requires direct interaction between consumers and providers. | Access, convenience and interactions with service provider affect consumers' evaluations of service outcomes. Service delivery environment affects consumers' evaluations of quality. |

Notes: Adapted from Figure 3.3 in McGuire, L. (1999) *Australian Services Marketing and Management*, South Yarra, Macmillan. Chapter 3 explains how this was derived from classifications in services management.

Services vary on a tangibility, and the specification and measurement of quality and outcomes is more difficult as intangibility increases. A search-experience-credence continuum, used to classify services, highlights the problems in defining and reporting on quality (Zeithaml 1981). Search attributes refer to characteristics that can be evaluated prior to purchase. Experience attributes refer to characteristics that can only be evaluated after consumption. Credence attributes refer to characteristics that consumers cannot confidently judge even after consumption, as they do not have the necessary technical expertise. Tangible products such as consumer packaged goods and durables are high on search attributes. Economic infrastructure services such as electricity, rail and postal services are high on experience attributes. Human services such as education, health and justice are higher on credence attributes. A reliable electricity, rail or postal service is more easily specified and measured than a reliable school, hospital or court. The more difficult the service is to specify, the more likely it is that providers rather than purchasers will have control over quality (Walsh 1995). The

issues are specifying technical and process qualities and overcoming information asymmetry between providers and customers/consumers.

Coproduction: A fundamental distinction between manufacturing and service processes is the inseparability of production and consumption. Inseparability, referred to as 'team production' in economics, is called 'coproduction' in services management. Coproduction signals that production and consumption are not entirely separate in time, and consumers participate to some extent as 'producers' in delivery (Gummesson 1991b). Coproduction is a distinctive feature of all services, not just public services as suggested by Alford (1997), and there has been substantial theoretical development of this concept in services management (see Gummesson 1998a; Grönroos 2000).

Services are produced and consumed in interactive delivery processes, and service outputs cannot be separated from processes. Coproduction increases the complexity of service delivery, and makes it more difficult to standardise service outputs and quality (Gummesson 1994). Coproduction also means providers and customers share responsibility for quality. A production process model that separates inputs/processes and outputs/outcomes ignores coproduction. A service process model overcomes the problem by monitoring the cost of inputs and the value of outcomes.

Services vary on the nature and extent of coproduction, and the standardisation of service outputs and quality is more difficult as the role of consumers in delivery increases. The active participation of patients in health care and students in education makes these systems more complex than delivering post, electricity and water services. Process continua used to classify the complexity and divergence of service delivery (Shostack 1987) highlight problems in defining and reporting on quality. Complexity relates to the activities, including the role of consumers, in service delivery. Separating and measuring outputs and outcomes is more difficult as service complexity increases. Divergence relates to the extent to which service delivery is customised. Economic infrastructure service systems are easier to standardise than human services that are customised to the individual needs of clients. The issue is standardising services outputs and quality.

Direct provider-consumer encounters: The relationship between the service provider and the consumer who receives the service is not secondary, but is integral to the service

(Walsh 1991a). Services cannot be separated from the providers and consumers. Service delivery requires the consumer to access and interact directly with the service provider. The 'moments of truth' metaphor (Normann 1984) focused attention on quality in direct provider-consumer interactions and, compared to TQM, this provides a different perspective on customer orientation. Convenient access to and encounters with the provider during delivery influence consumer services. Encounters with staff and systems affect consumer perceptions of process quality. Where technical quality is hard for consumers to assess, process quality dimensions will dominate evaluations of service quality. Performance monitoring that relies on consumer satisfaction surveys may only be measuring process quality and may not capture technical dimensions of service quality.

Services vary on customer relationships and a differences between professional and mass services creates the need for different quality measurement methods (Silvestro 1997). A second issue is the customer-consumer nexus in client relationships (Smith & Freidman 1994). Customers are not always the consumer with a direct role in service delivery. This has implications for specifying service quality as the link between service delivery, customer satisfaction and performance is more complex. The issue is the extent to which providers, customers and consumers share performance objectives (DoF 1995a).

Intangible outcomes, coproduction and direct provider-client encounters limit the transfer of an 'input-ouput-outcomes' model from manufacturing to services. Process consumption means that providers and consumers share responsibility for quality, and different types of service processes require different performance measures (Silvestro *et al* 1992). Customer/consumers and service providers have different perspectives on costs, quality and value. The imperative for quality and customer responsiveness in business management is the link between customer satisfaction and profitability.

4.3.3 Service Profit Chain: the economics of quality

The Profit Impact of Market Strategies (PIMS) study, also sponsored by the American Marketing Science Institute in the 1970s, identified and measured the major determinants of a financial Return On Investment (ROI) in business (Buzzell, Gale & Sultan 1975). Market share was identified as the most significant influence on profitability. The project identified higher prices and superior quality as a unique

competitive position for market leaders, which heralded the 'quality revolution' in business in the 1980s (Kaplan & Norton 1996). Failure to deliver expected quality is one of the most frequently cited reasons for poor performance (Buzell and Gale 1975; Garvin 1988; Zeithaml 2000).

At the same time, a reputation for quality has been identified as a source of competitive differentiation and advantage in case studies of 'excellent' service enterprises (Peter & Waterman 1982). Exponential growth in service quality research in the 1980s reflected the parallel interest in quality management and customer satisfaction in business (Brown, Fisk & Bitner 1993). A basic principle of the quality movement is that customers, not experts, should tell managers what quality is (Pollitt & Bouckaert 1995). A fundamental proposition in services management is that quality is a key driver of customer value and therefore business performance.

The PIMS research established an association between superior service and higher than average market share growth (Buzell & Gale 1975). In the 1980s, customer retention research established a link between high levels of satisfaction, customer loyalty and profitability (Reichheld & Sasser 1990; Reichheld 1993 & 1996). Customer retention economics combines a demand side, or customers' perspectives on value, and a supply side, or firm's perspective on value, in calculating the value of loyal customers and the costs of customer defections to a firm. However, the relationship between service quality and profits is both complex, and the subject of considerable debate in theory (Zeithaml 2000). The practical consequence is that, whilst there is universal agreement that service quality is of strategic importance, and therefore has to be defined and measured to be managed, there is no agreement about how this should be done.

In the early 1990s the service management faculty at Harvard Business School developed a new framework, the 'Service Profit Chain', to identify the sources of profitability and growth in labour dominant service firms (Heskett *et al* 1994). Economic value measured by profit is the bottom-line measure. The productivity imperative is the direct impact of costs on the bottom line. The quality imperative is also its contribution to the provider's bottom line, through a complex chain of effects on customer satisfaction, retention and profitability. However, specifying and measuring the precise nature of these links is complex for services and the subject of continuing debate (Zeithaml 2000). The Service Profit Chain has also highlighted the profit impact

of effective recovery for customers from service delivery failures. Perceived fairness or equity has a significant impact on satisfaction with service recovery (Andreassen 2000).

In summary, a public/private dichotomy does not capture the differences in context that limit transfer of definitions of quality from business to public services. On the private side, issues around transfer relate to the nature of quality for services. Performance reporting has to balance information about technical and process dimensions of quality for services, and overcome information asymmetry between providers and customers. Gaps in performance reporting arising from different definitions of quality explain accountability traps that limit responsiveness to clients.

In contrast to the quantitative variable in economic models, quality management is not a coherent set of principles, and there is no agreement about how to define and measure quality. Whilst there is agreement about the centrality of customer views in setting quality standards and monitoring performance, a bewildering array of instruments and techniques are on offer, and this is evident in the implementation guidelines for public services. The next section considers three approaches to defining and reporting on quality that have been transferred from business to public services.

4.4 Three Quality Tribes

Service quality is an imprecise concept, and conceptual ambiguity that is evident in evaluation reports and implementation guidelines for public services, originates in management theory and practice. Walsh (1991a) recognised a distinction between quality defined as 'conformance to standards' and 'fit for intended purpose', and this is used by Finance and the IC (DoF 1995a; IC 1996). Conformance to standards emphasises service process and relies on ex ante certification or assurance for evidence of quality. Fit for intended purpose focuses on results and relies on ex post monitoring for evidence of quality. However, providers and clients have different views on standards and purpose.

Quality Assurance (QA), customer perceptions of service quality and results are three quality 'tribes' evident in management that have been applied to public services. These are different approaches to accountability and quality improvement. The differences in specification and reporting on quality are summarised in Table 4.3 over the page. The

first perspective is closely aligned with Walsh's (1991a) definition of quality as 'conformance to standards'. The second and third perspectives are more closely aligned with Walsh's (1991a) definition of quality as 'fit for intended purpose'. 'Customer perceptions' is a client/consumer view of purpose, and results is a provider views.

4.4.1 Quality Assurance: quality is defined by conformance to standards

Assurance relates to processes and quality is defined by conformance to internal or external standards. Quality is an attribute in this approach and conformance to process standards provides assurance of reliability and reduces the risk of service delivery failure. Certification and accreditation are different approaches to quality assurance, however quality is defined in technical and process standards by professionals in both.

Quality certification is based on external audit of processes. Quality certification systems such as the ASO/ISO 9000 standards, administered by Standards Australia, is the most popular quality practice in Australia (Beirlharz & Chapman 1994). Under this system, enterprises are certified based on external review of operations. The purpose is confirmation of quality processes to provide assurance for customers. National industry standards are specified and monitored by the accreditation body, Standards Australia. Certification implies standardisation of procedures and processes, and greater managerial control (IC 1996, 355). The ASO/ISO series are product standards that relate to processes. Certification of quality systems does not guarantee the quality of delivery outcomes.

Professional accreditation is a system of external peer review to determine compliance with a set of standards (Scrivens 1995, 9). IC/PC has generally opposed accreditation as it creates barriers to entry and increase costs. The PC argues that quality system certification is more cost effective and gives service providers more control (IC 1996, 354). However, the PC does acknowledge that accreditation is a better means of reducing failure for professional services, because it increases external control which can be used to introduce client perspective.

The IC's report on CTC (1996) identified and evaluated the two main approaches to minimising contract failure: quality assurance to reduce risk in selecting a service provider and the development of a performance monitoring regime to ensure that

Table 4.3
Three Definitions of Quality for Services

| DEFINITIONS OF QUALITY | | |
|--|--|---|
| Conformance to standards | Fit for intended purpose | |
| Quality Assurance | Customers perception | Results |
| Quality is defined by attributes | Quality is defined by attitudes | Quality is defined by value |
| Quality is defined as technical and process specifications | Quality is defined as 'fit for purpose' from a customer perspective on outcomes | Quality is defined as 'fit for purpose' from a provider perspective on outcomes |
| Quality is defined in internal specifications or external standards set by certification or accreditation agency | Quality is defined in standards and indicators set in consultation with customers | Quality is defined in targets set by service providers |
| Quality is controlled by inspection and auditing compliance with standards | Quality is controlled by monitoring customer perceptions of service outputs and outcomes | Quality is controlled by monitoring outcomes |
| Monitor and report on compliance with specifications, certification and quality assurance standards | Monitor and report on customer perceptions of quality and value of services to customers | Monitor and report on results against provider's objectives and value the impact of quality |
| Focus on inputs, activities and delivery processes | Focus on service delivery outcomes for customers | Focus on service delivery and outcomes for providers |
| Indicators: Reliability Accreditation Quality certification | Indicators: Customer satisfaction indices SERVQUAL instrument SERVPERF instrument Complaints | Indicators: ROQ Revenue Customer retention Customer loyalty Referrals |

Note: This table was first published in McGuire, L. (2001) Service Charters - global convergence or national divergence? A Comparison of initiatives in Australia, the United Kingdom and the United States, *Public Management Review*, Vol. 3, No. 4, 493-524.

specified standards are attained. The IC recommended quality assurance (accreditation and certification) and monitoring where the risk and cost of quality failure is high (IC 1996, 359 & 366). Commonwealth programs link public funding for hospitals, community health, universities, child care and aged care providers to national accreditation systems (SCRCSSP 20001).

Reliability has been identified as the most significant influence on customers' choice of service provider and repurchase decisions (Kevearney 1995), and therefore a key driver of performance in the Service Profit Chain. However, quality assurance is criticised as a production-driven approach that focuses on efficiency and internal processes, rather

than effectiveness and customer outcomes. Systems guarantee consistency, but this does not necessarily guarantee quality in the eyes of the customer (Boland & Silbergh 1996, 357).

4.4.2 Customer perceptions: quality is defined by customers' attitudes

Quality is defined by consumer perceptions of service delivery. Quality is an attitude in this approach and this shifts the balance in reporting from provider to consumer control. As discussed above, TQM added quality, defined by customers, to the performance equation, and services management added process consumption and qualities.

Two distinct but related strands of research in services management create confusion about the concept of quality and its relationship to performance. The first strand is dominated by a research program, under the auspices of the American Marketing Science Institute (Zeithaml, Parasuraman & Berry 1990). This program developed the Gaps Model of Service Quality and the associated SERVQUAL measurement instrument. These were based on a conceptual model of Total Perceived Quality (TPQ), developed by Grönroos' (1978 & 1984). In the TPQ and Gaps Models, quality is conceptualised as the difference between what customers expect and what they experience in service delivery.

The significance of this approach to performance reporting is the distinction between technical and process features, or qualities, discussed earlier (Grönroos 1983). Technical qualities define what service is delivered, and the performance measures are reliability and conformance to standards usually set by providers. Process qualities define how the service is delivered, and the performance measures are accessibility, convenience and empathy of providers from the client's perceptions. Process qualities have been described as the 'hotel aspects' of service delivery' (Walsh 1995). Customer service is directed at these process attributes, for example accessibility, convenience and empathy of service providers.

A separate stream of research measures quality indirectly, using customer satisfaction as a proxy (Fornell 1992; Rust & Oliver 1994). The significance of this research for performance reporting is the development of a battery of psychometric instruments for measuring customer attitudes and perceptions. Customer satisfaction indices are used to track performance over time and benchmark service quality performance. A Customer

Satisfaction Barometer developed by researchers in Sweden has been used for international comparison of customer satisfaction levels in a cross section of industries, including government (Fornell 1992; Fornell *et al* 1996).

4.4.3 Results: quality is defined by value

Quality in this view is defined by results or outcomes achieved against the provider's objectives. This is the perspective in the Service Profit Chain and reflects the recent focus on service profitability and customer retention economics (Riechheld 1993 & 1996). Return on Quality (ROQ) is a framework for valuing investments in quality, based on returns to the service provider (Rust, Zahorik & Kennington 1995). ROQ is a framework that links customers' perceptions of service quality to the performance of providers. This is an economic perspective on value measured by profitability. Value is also measured by customer loyalty and retention rates. The imperative for a balance between providers and customers in performance reporting is the link between quality, customer satisfaction, customer loyalty and profitability in the Service Profit Chain (Heskett *et al* 1994). Whilst quality is defined by customers, standards are set with a view to the service provider's objectives.

QA, Customer Perceptions and Results are different definitions of quality and change the balance in performance reporting. QA provides evidence of service quality based on external certification or accreditation, and quality is defined by attributes. QA changes the balance toward professional control. Customer or consumer perceptions provide evidence of service quality by monitoring satisfaction and complaints, and quality is defined by attitudes. Customer perceptions shift the balance in performance reporting to increase consumer control. Results provide evidence of service quality by monitoring performance against a service provider's objectives, and quality is defined by economic value in the ROQ approach. This changes the balance toward the service provider.

QA, customer perceptions and results are different accountability frameworks reflecting different assumptions or logics about the relationship of quality to performance. The logic that links quality measurement to performance is not generally questioned (Waldersee 1999). The logic of QA is professional control of standards by external accrediting agencies. ASO/ISO certification and awards are used to monitor performance and signal quality. The logic of customer perceptions is consumer control of quality standards by satisfaction surveys and complaints. Customer standards,

complaint handling and satisfaction indicators are used to monitor performance and signal quality. The logic of results is managerial control of quality standards by monitoring financial return from investments in quality. Customer retention, loyalty and revenue are used to monitor performance and value quality investments. Each of these approaches has limitations in the context of public services, and these are considered in the next chapter.

Different approaches are recognised in guidelines developed for public services, for example *Contract Management Better Practice Guide* (ANAO). However there is considerable variation and the agencies adopt predictable stances. Quality is defined by Finance from an economic perspective (DoFA 2000a). The Audit Office (2001, 49-50) adopts a managerial perspective recognising PSQ and customer service. Performance reporting for COAG benchmarks results. Service Charters adopt a customer service stance (DIST 1997c).

4.4.4 Service Paradox: service quality and customer service

The social paradox identified in this chapter reflects ambiguity in the concept of service, that confuses specification and reporting on quality. Service has a diversity of meanings that leads to confusion between service products, service processes and customer service (McGuire 1999; Johns 1999). From a marketing perspective, services are products, from a management perspective services are processes. 'Services' is used to identify a particular class of products or processes that is distinct from goods or manufacturing processes. 'Customer service' describes a competitive strategy to differentiate products, whether these are goods or services.

The explicit intent of new accountability mechanisms for public services is to change accountability from process to the cost and quality of outputs. However, as this Chapter demonstrates, outputs for services are in essence interactive processes. Process consumption means customers and providers share responsibility for quality. The service paradox raises two issues for clarity and balance in reporting on quality for public services. One issue is specifying technical and process qualities, and the other is balancing service provider and customer/consumer perspectives on quality. Product quality and output consumption is technical perspective, and the measure is reliable service delivery. Customer service is a process perspective and the measure is consumer perceptions of service delivery. Service providers and customers/consumers have

different views on quality, and performance reporting has to overcome information asymmetry in this relationship.

As discussed previously, Finance has substantively shifted its stance on the definition of quality. In *Quality for our Clients* (DoF 1995a, 2) Finance argued:

In the context of performance measurement, quality is not only about having a focus on standards of service delivery but also outcomes. In many cases public service providers will look to balance the measures used to assess standards in both these areas. Both will need to be derived from an analysis of client needs and expectations.

In the new financial management framework, discussed in Chapter 3, quality is separated from effectiveness and defined as follows (DoFA 2000a, 2):

(Quality) Relates to the characteristics by which customers or stakeholders judge and organisation, product or service. Assessment of quality involves use of information gathered from interested parties to identify differences between users' expectations and experiences.

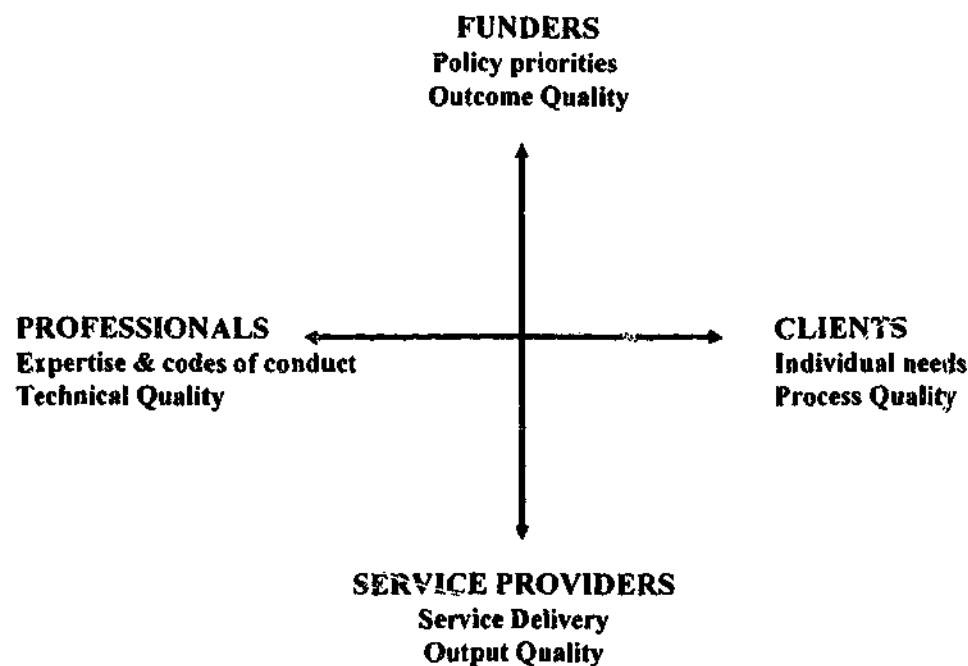
According to Finance this assessment should reflect client or stakeholders' views on the fit between the output and the purpose for which it was intended. The slide from 'client' to 'stakeholders' significantly increases the complexity of performance reporting. As identified in Figure 2.1, funders, providers, professionals and clients are stakeholders with different views on the 'fit between outputs and purpose'.

In looking to business for definitions and measures of quality, practitioners enter a minefield. As the brief review of the service research in this chapter illustrates, there is little agreement on either concepts or measures of quality (Zeithaml 2000). One challenge is measuring the expectations and experiences, and the difference between these. Customer satisfaction that measures experience is more widely used than SERVQUAL, which measures the difference between expectations and experiences. An even greater challenge is identifying the characteristics by which customers judge service.

Accountability is fundamentally about control, and performance management is an instrumental framework based on a production process model that standardises and quantifies performance. Specification and measurement problems arising from the transfer of this model to services add to the problems discussed in Chapters 2 and 3, and

explain gaps in performance reporting that limit accountability and client responsiveness. The relationship between quality and value is complex for services and value is contested for public services. Funders, providers and clients have different interests and perspectives on quality and its relationship to value. As discussed in Chapter 3, performance reporting has to overcome information asymmetry between providers and funders, to link services to social policy outcomes. However, standards and indicators taken from services management generally ignore the public characteristics (Walsh 1991a & 1994). In addition to this, quality of service delivery has technical and process dimensions, and reporting has to overcome information asymmetry in the provider-customer relationships. The balance that has to be struck in performance reporting is illustrated in Figure 4.1.

Figure 4.1
Balanced Information on Quality



In summary, specification of service quality is usually based on one of the three perspectives discussed in this chapter. Attributes, attitudes and value are different

definitions of quality that are reflected in standards or indicators and in the information selected for performance reporting. The consequence is that service providers will focus quality improvement on different aspects of service delivery. There is a balance to be struck between the different definitions of quality. Quality has technical and process dimensions and customer service is only a partial measure of service quality. Providers have more information about technical quality and consumers have more information about process quality for services. Information asymmetry in this relationship explains gaps in performance reporting that limit accountability. Performance reporting has to balance provider information about technical quality and consumer information about process quality or customer service.

4.5 Conclusion

Quality is defined in standards and indicators for public services based on a diversity of approaches drawn from business. Certification, accreditation, benchmarking, business excellence frameworks and customer service standards are different definitions of quality, and provide different information about quality. Balance and clarity in performance reporting require specification of the quality of service outputs linked to policy outcomes. Benchmarking results shifts the balance in performance reporting from managerial and political control. This is the intent of performance reporting for COAG, the case study in Chapter 6. Customer perceptions shift the balance in performance reporting from professional to client control. This is the intent of performance reporting in Service Charters, the case study in Chapter 7.

Confusion about quality and its relationship to value starts in management theory and practice. The issues are different definitions of quality and provider-client relationships for services. QA, customer perceptions and ROQ provide different information about quality, and providers and clients have different views on quality standards and value.

Clarity in performance reporting requires suitable indicators and measures that capture the elements of technical and process quality for services. Balanced performance reporting requires information on technical and process quality from the perspective of providers and customers/consumers. In practice, different definitions of quality that create specification problems, and the technical difficulties of measurement, are

exacerbated in the transfer from business to public services. This explains gaps in reporting on quality that limit accountability and responsiveness.

The shift to contracting and external performance reporting has placed the difficulties of specification and measurement of service quality, under the spotlight (DoF 1993 & 1995b, Kettl 1994, Pollitt 1988, Carter 1991). Practical prescriptions for evaluating service quality rely on models from the private sector (Osborne & Gaebler 1992, DoF 1995a). Whilst there is agreement that quality is of strategic importance, there is considerable debate about the definition and measurement of quality (Garvin 1988). This means incorporating quality into the performance management frameworks discussed in Chapter 3 is a significant challenge. As Garvin (1988: xi) suggests:

Quality is an unusually slippery concept, easy to visualize yet exasperatingly difficult to define.

In the new performance management cycle, reporting has to link quality of service delivery outputs to social policy outcomes (DoFA 2000a). The difficulty of specifying quality for services adds to the problem of separating and specifying responsibility for quality of outputs linked to policy outcomes, discussed in Chapters 2 and 3. The problem identified in Chapter 2 was separating and assigning responsibility for quality in complex accountability relationships for public services. The problems for public services, identified in Chapter 3, were specifying the quality of outputs linked to policy outcomes, and measuring value which has equity dimensions. The problem identified in this chapter is that there is no agreement about the definition of quality, or what the evidence of quality is. What is clear is that there is more to responsiveness to clients than process qualities or customer service. Answering a telephone inquiry in 60 seconds, or being able to make personal appointments, do not compensate for a lack of power and water, incorrect assessment of income support, or the wrong clinical diagnosis.

The conceptual and technical complexity of measuring quality for public services reflects two problems. The first is specifying and measuring service quality. A production process model that separates production and consumption does not capture the interactive dimensions of quality for services. Services process models have been developed to fill this gap. However, uncertainty is created by information asymmetry

between providers and clients. Providers control technical quality that customers may have difficulty evaluating.

The second problem is that quality indicators in management frameworks do not take into account the qualities of public services. The imperative for responsiveness to the needs of clients in business models is market competition and customer choice. The assumption is that service quality drives customer satisfaction that in turn drives profit, the measure of performance for private service providers (Rust, Zahorik & Kennington 1995). However, the Service Profit Chain is a market model of equity, and the link between service quality, customer satisfaction and value is more complex for public services.

The quality movement provided the 'quality is as the customer defines it' rhetoric. The customer service movement delivered the 'satisfying and delighting customers' rhetoric. However, 'customer is a deeply ambiguous metaphor for provider-consumer relationships for public services (Walsh 1995; Paterson 1998). The language of 'customers' disguises the complexity of accountability relationships for public services.

Market-type mechanisms refer to structural changes that introduce contestable service delivery and competition between service providers, to give consumers greater choice (Walsh 1995). Markets are characterised by voluntary exchange where dissatisfied customers can exercise choice and exit to an alternative service provider. Consumer sovereignty in competitive markets is the imperative for responsiveness to the needs of clients as customers. However, the provision of health, education and community services is still characterised by monopoly or monopsony, and competition is for budget funds rather than consumers (Walsh 1995; Lyons 2001). The strategic imperative for public services is excess demand and budget constraints (Walsh 1995). This means the power of the purse has been in the hands of government purchasers and providers rather than consumers. Professionals have been the gate-keepers for access to public services such as health, education and aged care. The NPM agenda challenges the power of providers of publicly funded services to increase consumer choice and client responsiveness (Pollitt 1990b; Walsh 1995).

This chapter has considered the definition of quality for services. The conclusion from this and the previous chapter is that differences between manufacturing and services

contexts, as well as between public and private contexts, are significant for defining and reporting on quality. Quality definitions and measures, in a production process model developed for manufacturing ignore provider-consumer interactions in service delivery, and public services differ in nature and purpose from private services (Gaster 1996).

There is more to transfer than a public/private and a manufacturing/services dichotomy, as different service contexts have implications for defining and reporting on quality. Moreover, it is not only the public qualities that explain why health, education and community services are a difficult case. These are professional services that are high on intangibility, coproduction and provider-client encounters. The next chapter examines the 'professional' and 'public' characteristics of these services, in particular the provider-client interface for professional services and the nature of process quality for public services.

CHAPTER 5

PROFESSIONAL STANDARDS AND PUBLIC SERVICE QUALITIES

5.1 Introduction

Health, education and community services are the interface between public, non-profit and private sectors. Classified as social welfare by ACROSS (1997) and social infrastructure by the IC/PC (IC 1995b & PC 1998c), these services are classified as 'professional' in services management and marketing. The essential characteristics are human services delivered by professionals. Primarily funded by government, these services are delivered by complex networks of public, private and non-profit agencies. Public expenditure is a significant proportion of government budget outlays and national output in OECD countries (Keating 1998). These services are also the interface between government facing resource constraints arising from pressure to achieve budget surpluses, and the community demanding better quality services.

Contracting and service agreements with autonomous providers require funding agencies to become more sophisticated in the use of performance reporting (Ryan & Brown 1998; Davis & Wood 1998). Increasingly, program grants to agencies are agreements or contracts for specific units of service for particular client groups, and performance reporting is a condition of funding (Lyons 1994; Ryan 1999). Funds are appropriated for 'specified services to achieve defined outcomes' (IC 1996; Lyons 1997). Contracting has become an organising principle (Davis, Sullivan & Yeatman 1997), and great faith is placed in performance reporting as a mechanism for improving accountability, policy coordination and client-oriented service delivery.

Quality is defined in standards and indicators, and the evidence of quality in performance reporting is used in policy debates and budget deliberations. In practice, service agreements and contracts have encountered implementation problems associated with the difficulty of defining outcomes and appropriate measures of service quality (Ryan & Brown 1998). As Chalmers & Davis (2001) observe, the literature on implementation makes depressing reading. Dolowitz & Marsh (2000) argue that inappropriate, or incomplete transfer, is an important source of implementation and therefore policy failure. Confusion in policy, that originates in management theory, offers an explanation of

inappropriate transfer, and is clearly evident in the concepts and techniques of quality improvement as expressed in the official talk.

Chalmers & Davis (2001) also point out that human services are the most difficult case for policy and implementation. 'Client', 'customers' and 'consumers' are concepts that are used indiscriminately, which only adds to the confusion about the nature of relationships with professionals for public services. Marketing language and techniques are shaping policy debates and service delivery. However, ambiguity in the language of management and marketing confuses the transfer of concepts, and the application of techniques, to public services. This chapter examines the concept of client responsiveness in different contexts, and the implications for performance reporting. Ambiguity in the language of contracting and a customer metaphor, lead to confusion about client responsiveness for professional public services (McGuire 2003b). The issues are provider-client relationships in the context of professional services and process quality in the context of public services.

Section 2 examines the timing and sequence of reforms in the funding and delivery of social welfare/infrastructure services. Path dependency of change is explained by economic and social policy in a federal system that fragments responsibility, and two decades of financial and management reform. New accountability mechanisms and budget reform have changed the relationship between funders and providers, and between professionals and clients. The shift to outcomes and outputs budgets for social welfare services is changing the basis of funding to designated service units and for particular groups of clients (Ryan 1999; Lyons 1998).

Section 3 examines the institutions and ideas that have defined the boundaries of the development path by shaping the policy frameworks. The PC has been instrumental in advancing the microeconomic reform agenda, and has advocated the broad application of contracting to social welfare/infrastructure services (PC 1996; Banks 1999a & 2002). The PC's stance is essentially an economic perspective that elevates productivity and quantitative approaches to performance evaluation. On the opposing side of the policy contest is the welfare lobby, which is a loose coalition of agencies in the 'third' or 'nonprofit' sector (Lyons 2001). The Australian Council of Social Services (ACOSS), as the peak body representing the welfare lobby, is inside the policy network but outside government.

'Customers' and 'steering and rowing' are two powerful metaphors for structural and cultural change. Market relationships and individual choice underpin the customer metaphor (Walsh 1991b; Pollitt 1993; Pollitt & Bouckaert 1995; Paterson 1998). Quality improvement techniques and performance reporting have been used to change the focus of service delivery to 'clients' and 'customers'. Contracting and principal-agent relationships underpin the steering and rowing metaphor (Davis & Wood 1999). Under the umbrella of National Competition Policy (NCP), contracting has been extended to social welfare services (Argy 2001). In arguing the case against the broad application of contracting to social welfare services, opponents have highlighted the practical consequences of transfer (ACOSS 1997a&b; Ernst 1998; Argy 1998).

Section 4 considers quality and client relationships in the particular context of professional public services. The services of main interest in this study are human services that involve the use of professional staff in delivery. In public management these are usually classified as 'human' or 'social welfare' services. In services management these are classified as 'professional services'. The issues around transfer relate to the 'professional' and 'public' qualities of these services. Conceptual ambiguity and information asymmetry explain gaps in performance reporting that limit responsiveness to clients' needs. Ambiguity in the concept of quality, discussed in Chapter 4, is amplified when techniques from business are applied to public services (Pollitt 1988, Walsh 1991a). Information asymmetry in the provider-client relationships is explained by the characteristics of professional services.

The social paradox (Poole & van de Ven 1989) identified in this chapter reflects ambiguity in a customer metaphor. Customer/client/consumer/citizen nomenclatures lead to confusion about the nature of provider-client relationships for public services (McGuire 1997a, 1997b & 2003b). Consumer and citizen paradigms are different perspectives on professional-client relationships for public services. 'Consumer' is an economic perspective, 'customer' is a marketing perspective and 'citizen' is a public policy perspective on accountability and responsiveness to clients.

Purchaser-provider arrangements, formalised in contracts and service agreements, require the purchaser to specify the service and monitor the cost and quality of delivery (Walsh 1995). Professional public services are difficult to specify. The more

difficult the service is to specify, the more likely it is that providers rather than purchasers will have control over performance (Walsh 1995). Direct accountability through performance reporting is intended to shift quality control from professionals to clients. However, a high degree of professional autonomy, derived from specialist qualifications, makes it difficult to increase client control in service delivery. Professionals provide care and advice based on knowledge and expertise, and this means that they have information about technical quality that clients cannot evaluate. Clients have more information about process quality.

The principle of social justice is the foundation of social policy (Titmus 1974). The logic for government intervention is redistribution of resources to achieve equity outcomes, and taxation and regulation are the means to effect redistribution (Eckersley 1998; ACOSS 1999b; Argy 2001). Social welfare is provided by governments in the form of direct cash transfers, or income support, and through publicly funded services. Mendelson (1981, 213) defined social welfare services, the core of a welfare state, as:

those services concerned with the development, enhancement and preservation of personal and family life and, in particular, education, health, income security and the caring services.

As discussed in Chapter 3, bottom line measures of value for public services are efficiency, effectiveness and equity.

In post-war welfare states in OECD countries, governments generally have expanded their responsibility for delivery of services to citizens (Keating 1998 & 2001a). As demand for these services has increased, successive Commonwealth Governments have searched for ways to contain the growth in public expenditure and improve service delivery effectiveness (Keating 1998). As a consequence there have been significant changes in the way these services are funded and delivered (Keating 2001b). In contrast to the UK, the welfare state has never been contained in the public sector in Australia (Mendelson 1981; Lyons 2001), so change has taken place in the context of a federal system that fragmented funding and delivery in complex networks of public, nonprofit and, increasingly private service providers. The next section provides an overview of the trajectory of reform for social welfare services. Table 5.1, over the page, provides a summary of the changes in the context of the three phases of reform recognised in Chapter 2.

Table 5.1
Context: Microeconomic and Social Policy Reforms

| Phase | Reports, Administrative and Legislative Reforms | Evaluations and Social Policy Reforms |
|--|---|---|
| L'ANCIEN REGIME – AMINISTRATIVE LAW REFORM | | |
| 1972-1975 Whitlam Labor Governments | Industry Assistance Commission Act 1973 | |
| 1975-1983 Fraser Conservative Coalition Governments | Coombs Report (1976) | Chapter 7 <i>Administration Away from the Centre</i> Appendix 4C <i>Task Force on Health and Welfare</i> |
| | Administrative Appeals Tribunal Act 1975 Ombudsman Act 1976 | |
| | Freedom of Information Act 1981 | <i>Through A Glass Darkly</i> (Senate 1979) |
| MANAGERIALISM – PERFORMANCE MANAGEMENT | | |
| 1983-1991 (Dec) Hawke Labor Governments | FMIP 'Managing-for-Results' Industry Commission Act 1989 | |
| 1991-1993 (Mar) Keating Labor Government | COAG established | SCNPMGTE established to benchmark economic infrastructure services (Reported 1993-1998) |
| | FMIP Evaluation Task Force Report (1992) | Accreditation for employment services case managers (1991) |
| CONTRACTUALISM – MARKET TYPE MECHANISMS | | |
| 1993-1996 (Mar) Second Keating Labor Government | Hilmer Report on NCP (1993) | SCRCSSP established to benchmark social infrastructure services (Reported 1994+) |
| | COAG National Competition Policy Agreements (1995) | ACHA accreditation hospitals and health services CHASP accreditation community health <i>Public Housing</i> (IC 1993) QIAS accreditation long day childcare (1994) |
| 1996-1998 First Howard Conservative Coalition Government | NCA Report (1996) | <i>Charitable Organisations in Australia</i> (IC 1995a) <i>Competitive Tendering and Contracting by Public Agencies</i> (IC 1996) ACSAA accreditation scheme aged care (1997) |
| 1997-98 budget | Performance Improvement Cycle FMA Act 1997 | <i>Nursing Home Subsidies</i> (PC 1999b) |
| 1998-2001 (Nov) Second Howard Conservative Coalition Government | Productivity Commission Act 1998 Accrual-based outcomes and outputs budgets from 1999-2000 | <i>The Challenges of welfare in the 21st Century</i> (Ministerial Discussion Paper 1999) <i>Participation for a More Equitable Society</i> (Reference Group Welfare Reform Report 2001) |

5.2 The contracting super highway

The origins of contemporary microeconomic and social policy reform can be traced back to the Whitlam Government's two short terms in office, from 1972 to 1975 (Wilenski 1986; Zifcak 1994; Quiggin 1996a&b). The Whitlam Government came to office with a strong platform for social policy reform, and expanded the role of the Commonwealth in education, health and community services that had traditionally been the responsibility of the States (Wilenski 1988). Welfare reform was included in the terms of reference for the RCAGA. Microeconomic reform was the province of Treasury and the Industry Assistance Commission, created by the Whitlam government in 1973. Social welfare and microeconomic reform were parallel paths until 1993, and the introduction of a NCP.

5.2.1 A health and welfare mosaic

In response to a special request, the RCAGA established a special task force on Health and Welfare, convened by Professor Enid Campbell, a Commissioner and Professor of Law. The Task Force placed on the public record the significance of the voluntary sector in what Coombs described as Australia's 'health-welfare mosaic' (RCAGA 1976 Appendix 4C, 40). The Task Force recommended a major rationalisation of welfare policies and administration including:

1. defining the roles of government and the voluntary sector in service provision (Recommendation 6), and
2. including a legislative requirement for monitoring and evaluation as a condition of funding for new federal programs (Recommendation 10).

The Coombs Report examined the issue of cooperative arrangements with the states in Chapter 7 *Administration Away from the Centre*, and the recommendations foreshadowed greater use of the states to deliver Commonwealth programs.

Lacking broad constitutional powers to implement national health, education and community service programs, the Commonwealth Government has relied on financial powers and the use of SPPs under Section 96 of the Constitution. These are formally negotiated Commonwealth-State agreements and subject to conditions. Under the banner of co-operative federalism the Whitlam government used SPP grants for social welfare policy reform. Under the banner of 'new federalism' the Fraser government attempted to wind back SPPs (Simms & Keating 1999). The Hawke and Keating

Governments turned back to central policy coordination to improve the delivery of services, and SPPs again became a mechanism for social policy reform. In the context of Commonwealth financial management reform, SPPs have increasingly been linked to specific outputs or outcomes, and to agreed performance indicators (Duckett & Swerrissen 1996).

Successive governments have also used national accreditation schemes introduced for hospitals, community health, child and aged care (IC 1996; SCRCSSP 2001). Case management for employment services was another mechanism for effecting change to make delivery more responsive to the needs of clients (Keating 2001b). Whilst reform has been incremental and evolutionary, State and Federal governments have sought to cooperatively restructure funding and delivery of welfare services, by a number of changes including (HRSCFCA 1998):

- tighter specification of services;
- classification of grants into specific programs;
- classification of grants into specific programs with designated objectives;
- extending government subsidies to for-profit providers in areas such as child care and aged care; and,
- developing standards and accreditation systems as a way of evaluating service quality.

Parliamentary reviews have consistently expressed concerns at the slow pace of development of performance reporting and the inadequacy of performance indicators (HRSCFPA 1990 & 1995).

5.2.2 Targeting funding and performance reporting

Two decades of financial management reform at the Commonwealth level have changed the basis of purchaser-provider arrangements, by shifting funding from historical costs to defined outputs and outcomes. There is greater emphasis on identifying the full cost of services (Duckett & Swerrissen 1996). Under successive Labor Governments from 1983 to 1996, change was incremental rather than dramatic, as social policy shifted from universal rights to a performance culture. This was reflected in greater targeting of expenditure on groups with clearly specified eligibility criteria, and in growth of performance reporting (Lyons 1998). The right to welfare is

being redefined, from universal access to services based on need, to access to affordable care (Newman 1999a&b).

Whilst funding models and responsibilities varied between programs and services, there was been a general shift from grants to service agreements (IC 1995a; Lyons 2001). Delivery networks have been opened up to private agencies, and increasingly service agreements are contracts for specific units of service for designated client groups, and performance reporting is a condition of funding (Ryan & Brown 1998).

A major weakness of the systems for delivering health, education and community services has been the focus on providers and programs rather than people and outcomes (Keating 2001b). The principle objectives of reforms have been to make providers more results-oriented and more responsive to clients. The then Secretary, of the Department of Health and Aged Care articulated the general hopes for the reforms (Podger, 2001, 19):

We have a stove-pipe system, which funds hospitals and medical services, pharmaceuticals, nursing homes, population health and so on. It is designed around providers, even where we reimburse patients. We have a chance now to make a major shift towards a national health system, not just a national health financing system – one that focuses more clearly on health outcomes, quality health care and effective services, not just on universal access through various benefit programs.

We have been working with the States and other stakeholders on a progressively detailed strategy that focuses on tangible products that will help consumers and providers, rather than focusing just on generic systems and processes.

A major theme in health care reform in our corporate strategy has been to focus the health system more on the consumer than on the provider. Information is clearly the way to do this.

Changes to the way welfare services are funded and delivered in Australia have been driven by the international trend to contracting service delivery, and by microeconomic reform (HRSCFCA 1998 Chapter 2). Contracting has been extended to social welfare services under the umbrella of NCP, and CTC has linked micro-economic reform and the productivity imperative to social policy (Argy 2001).

5.2.3 CTC for social welfare services

Quiggin (1996a) has traced the international and historical development of microeconomic reform in Australia, and considers this commenced in June 1973 with the Whitlam Labor Government. The election of the Fraser Government in 1975 signalled the curtailing of post-war growth in government expenditure and taxation, and the abandonment of the goal of full-employment. This explicit commitment to cut back the role of government laid the foundation for the radical microeconomic reforms of the 1980s and 1990s (Quiggin 1996a).

In 1992, the federal government appointed Professor Fred Hilmer, an economist from the Australian Graduate School of Management, to chair a Committee of Inquiry into National Competition Policy. The central thrust of the Committee's Final Report was to make GBEs more like private firms, and to create a 'level playing field' for competition between public and private enterprises (Hilmer 1993). In 1995 the state and territory governments, through COAG, signed the National Competition Policy Agreements. Initially, reform concentrated on government business enterprises but gradually the principles of contracting and contestability extended to social welfare services (IC 1996; Davis 1997). NCP was a catalyst for broad application of a contract model of service delivery that included social welfare services in general (Davis & Wood 1998) and community services in particular (Lyons 1997).

The historic COAG agreement resulted in the passage of the *National Competition Policy Act 1995* and the creation of two new bodies: the Australian Competition and Consumer Commission (ACCC) and the National Competition Council (NCC). The ACCC, which replaced the Trade Practices Commission and Prices Surveillance Authority, is responsible for administration of the legislation.

The election of the Howard government in 1996 accelerated the shift to contestable service delivery, and CTC became official policy in the first term of the Government (MAB 1997; Davis & Rhodes 2000). CTC exacerbates fragmentation with a service delivery model that favours competition between agencies. As discussed in Chapter 3, CTC and the new resource management framework based on outcomes and outputs budgeting, compel agencies to specify outcomes, outputs and performance indicators. This has been reflected in the growth of performance reporting against quantitative indicators.

CTC for social welfare services was examined by the IC in two public inquiries (IC 1995a & 1996) and was also referred to the Parliament by the then Minister for Health and Community Services in 1997 (HRSCFCA 1998). The IC inquiries (to be discussed in the next section), in the face of considerable opposition from the welfare sector, supported the application of CTC to social welfare services.

The parliamentary inquiry concentrated on contracting of government welfare services, to the nonprofit and private sector agencies, by Commonwealth, State, Territory and Local government. The inquiry report, *What Price Competition?* investigated the adequacy of performance monitoring in the welfare sector, and the limits of contestability for social welfare services. The Committee recommended that a 'contestability continuum' be developed to assess the applicability of CTC to social welfare services. On the issue of the adequacy of performance monitoring, the report did find evidence of significant improvements, but recognised persistent problems. Echoing evaluations since the Coombs Report, the basic problems recognised for welfare services were defining outputs and outcomes, and developing meaningful performance indicators. On the evidence presented to the Committee, the practical consequence of these problems has been reliance on quantitative output measures, rather than outcomes for clients.

Performance reporting has been substantively progressed in two national benchmarking projects, taken over by COAG, that have developed performance indicators and measures. The Steering Committee on National Performance Monitoring of Government Trading Enterprises (SCNPMGTE) benchmarked the performance of economic infrastructure services provided by GTEs from 1993 to 1998 (PC 1998b & 1999a). The framework of efficiency and effectiveness performance indicators was extended to social infrastructure service by The Review, the case to be examined in Chapter 6.

NCP linked microeconomic, social welfare policy and financial management reform in the APS (Argy 1998). Purchaser-provider arrangements appropriated funds to deliver specified services to achieve defined outcomes (DoF1995; IC 1996). CTC further separates policy and service delivery with a service delivery model that favours competition between agencies (Davis & Wood 1998). Initially public sector reform concentrated on government business enterprises, but gradually the principles of

contracting and contestability were extended to social welfare services (IC 1996; Davis 1997). In the words of the Chairman of the PC, microeconomic reform was extended to 'social infrastructure' and the 'efficient and effective use of social capital' – hospitals, schools and community services (Scales 1998).

Whilst change has been evolutionary and program-based, a pattern is evident in the contracting story that has unfolded over three decades. As Argy (2001) explains, three general policy shifts explain the trajectory of reform:

1. a shift to objectives that can be quantified, and evidence-based policy analysis;
2. market-type mechanism for service delivery; and,
3. a retreat from unconditional needs-based welfare.

Contracting, and the move to outcomes and outputs budgets as a condition of funding have changed accountability relationships. Funding has changed in SPPs and budget programs, from unconditional grants to specified quantity and quality of services. Delivery systems have been restructured and private providers have been brought into the networks (Keating 1999). Funds are appropriated for specified service, for particular client groups, to achieve defined outcomes, and performance reporting is a condition of funding (Ryan 1999; Lyons 1998). However, public funds are generally still tied to programs rather than individuals. Accreditation, benchmarking and customer service standards, to improve the quality of services, have brought clients views into performance reporting regimes. Service agreements and contracts specify units of service for designated client groups (Lyons 2001).

Market-type mechanisms found expression in the dismantling of the Commonwealth Employment Services and creation of The Jobs Network, and at the State level for human services such as such as prison management and hospital services (IC 1996). These reforms have increased fragmentation in funding and service delivery networks, and the health and welfare mosaic, recognised in the Coombs Report, is even more complex. The next section examines the role of the PC and the ideas that have set the boundaries for reform.

5.3 Contracting for care

Australia also has a long tradition of influential, autonomous policy advisory agencies and public inquiries (Davis & Rhodes 2000). The strong hand shaping the contracting story has been that of the PC and its predecessors. As an independent statutory authority, and the government's principal advisory agency on microeconomic reform, the PC is a powerful advocate for the primacy of the productivity imperative and the application of contracting to social welfare services (IC1997b; PC 1996).

5.3.1 Productivity Commission

The PC carried forward a philosophical approach that can be traced back to the Industries Assistance Commission (IAC), established by the Whitlam Government in 1973, and its successor the Industry Commission (IC). With a consistent stance, these Commissions supported the microeconomic reform agenda of successive governments, through a very public inquiry and reporting process (Quiggin 1996a&b). Over time the mandate has broadened from a narrow focus on industry assistance to all areas of the economy. The PC was formed by the Howard Government by amalgamating the Bureau of Industry Economics, the Economic Planning and Advisory Council and the IC. The Chairman of the IC, Bill Scales, became the Head of the new Commission.

The first report of the new PC recommended the broad application of CTC in the public sector, and directly linked social welfare reform to improving productivity and competitiveness (PC 1996). The Commission has applied an economic framework, developed for evaluating industry assistance, to social infrastructure services and the social dimensions of public policy. Its recommendations have been instrumental in extending the microeconomic reform agenda to social welfare services (PC 1998a).

Social welfare services first came under the direct scrutiny of the IC with the inquiry into the Commonwealth-State Housing Agreement (IC 1993). As mentioned above, two reports instrumental in shaping the changes in social policy were *Charitable Organisations in Australia* (IC 1995a) and *Contracting and Competitive Tendering by Public Agencies* (IC 1996). The Charities Report highlighted the lack of a consistent set of principles for funding service agreements, and key recommendations relevant to this study were:

1. linking payments under funding agreements to the achievement of defined outputs;

2. development of a consistent set of principles for selecting service providers; and
3. accredited quality management systems be a condition of funding for community sector organisations.

The CTC Report set out the case for CTC to improve accountability, quality and cost-effectiveness of service delivery. Although the IC recommended CTC should be assessed on a case by case basis, rather than broad categories, the combined effect of these reports was a strong case for the broad application of contracting to welfare services. The IC's recommendations on CTC were supported by NCA, convened by the Howard Government (NCA 1996).

The IC report on CTC (1996) evaluated two main approaches to minimising contract failure: quality assurance to reduce risk in selecting a service provider, and the development of a performance monitoring regime to ensure that specified standards are attained. The IC recommended quality assurance, through certification, in preference to accreditation, and performance monitoring where the risk and cost of quality failure is high (IC 1996). The general arguments for CTC and specific IC/PC recommendations have attracted criticism from inside and outside the welfare sector, on the grounds of the limitations in application to human services, and the consequences for social policy (Ernst 1998; Lyons 1998; Ryan 2001).

5.3.2 A clash of civilizations: economic and social policy

Social policy outputs are the services provided (Ryan 1995), and service delivery is at the centre of what might be described as a clash of civilisations in policy debates about economic and social costs and values. The contest between the welfare lobby, represented by ACOSS, and the PC has been conducted in public in inquiries, notably the parliamentary inquiry on Competitive Tendering for Welfare Services (HRSCFCS 1998), discussed above, and the Reference Group on Welfare Reform (RGWF 2000a&b; PC 2000a). As the language of business and economics overtakes the welfare lobby in social policy debates, services are being redefined from social protection and welfare to social infrastructure and capital.

Economics uses concepts of consumers, goods, enterprises and individual choice in debates about social welfare. Public choice theory treats social welfare services as a

consumption good (Titmus 1974), policy choices are exercises in allocative efficiency, and markets are the preferred mechanism for providing services (PC 1996). Economics elevates market competition and productivity. In contrast, the welfare lobby uses concepts of citizenship, social enterprise and social choice in debates about social welfare. Social welfare services are the means to achieve distributive justice, policy choices are exercises in redistribution, and government has a responsibility and a public duty to care for citizens (ACOSS 1997a&b). Government sponsorship of social enterprises is the preferred mechanism. Social welfare elevates cooperation and equity.

Titmus (1974) considers that the concepts of social welfare and social services are broadly synonymous, but distinguishes between 'social services' and 'public services'. The amount and kind of public goods is determined by collective choice in policy processes (Stretton & Orchard 1994, 54). Titmus defines policy as 'the principles that govern action directed towards given ends'. The objectives of social policy are social value defined as equity and social justice. Value judgements that are inescapable in social policy are concealed in public choice theory (Titmus 1974; Stretton & Orchard 1994).

'Steering and rowing' and 'customers' are two powerful metaphors that have become synonymous with the structural and cultural change in the systems that deliver social welfare services. A principal-agent model of public choice underpins Osborne & Gaebler's powerful slogan that 'governments should steer and not row' (Davis & Wood 1999; Davis & Rhodes 2000). Market relationships and individual choice underpin the customer metaphor (Walsh 1991b; Pollitt 1993; Pollitt & Bouckaert 1995; Paterson 1998). However these metaphors are deeply ambiguous for public services.

Purchaser-provider arrangements are a variant of a principal-agent model of rational choice that separates policy agencies from service delivery contractors (Walsh 1995). The argument is that separating policy and service delivery will improve the efficiency and effectiveness of public services. Contracting separates agents who deliver services from principals who purchase services, using public funds, on behalf of the community. As discussed in Chapters 2 and 3, performance reporting is the means to make agents accountable to principals.

Quiggin (1996b) explains two a priori reasons why contracting might lead to reductions in quality. First, there is the incentive for governments to reduce quality and costs by contracting. Secondly, there are incentives for private contracts to provide minimum service. Specification of quality and performance reporting are the means to overcome these perverse incentives.

'Customer' is a second metaphor for change that introduces market-type relationships and individual choice, to make service providers responsive to clients (Pollitt 1993 & Pollitt & Bouckaert 1995). However, customer is an ambiguous metaphor for client relationships in the context of public services, and political and market logic are conflicting perspectives on responsive public services (Self 1993 & 2000). Market logic is based on the assumption of customer power or sovereignty, achieved through exit and choice mechanisms. Democratic logic is based on the assumption of citizen power or sovereignty, achieved through voice mechanisms such as complaints systems and new administrative law. A customer metaphor for client relationships elevates consumers and displaces citizenship in client relationships.

5.3.3 Choice and voice for client responsiveness

As discussed in Chapter 4, the NPM policy community has been instrumental in the transfer of market-type mechanisms for public services, and this is reflected in a change from 'clients' to 'customers'. In Australia, the idea that public services should be responsive to the needs of clients originated in the Coombs Report (RCAGA 1976). The idea that public agencies have customers is a more recent one, transplanted to the public sector and applied to public services, with the quality movement and management consultants armed with techniques developed for competitive markets (Micklethwait & Wooldridge 1996). The origins of a customer-orientation for public services can be traced to Peter Drucker in management and Phillip Kotler in marketing (McGuire 1998a & 2003b).

However, as the language of business has been applied to public services, clients are being redefined as customers, to change the culture of service delivery (Pech 1997; Zanetti 1998; Vardon 1999). According to this view, 'client' carries a flavour of 'dependency and passivity', whereas 'customer' signals a 'more equal relationship' with providers. Even within the constraints of government as a monopoly, the term

customer is argued to offer a fresh perspective on responsiveness (Pech 1997). 'Customer service' has become a metaphor for responsiveness to clients.

Markets/policy processes is a dichotomy used to contrast different approaches to responsiveness to clients (Walsh 1995). Markets are based on voluntary exchange where customers can exercise choice and market power, by switching to an alternative service provider if dissatisfied. The imperative for responsiveness to clients in a market model, such as the Service Profit Chain discussed in Chapter 4, is the contribution to the provider's bottom line profitability. A direct, although complex, link between customer satisfaction, retention and profitability creates a strong imperative for responding to clients.

CTC, described as a 'market-type' mechanism, separates responsibility for the funding and service delivery, shifting the role of government from direct provider to enabler (Walsh 1995). However, the application of CTC to public services creates 'markets' that are administered (Glynn & Murphy 1996) or quasi (Walsh 1995) structures. Common, Flynn and Mellon (1992) examined different market-type mechanisms, and recognised a continuum of contestability from purchaser-provider contracts at the low end, through competitive tendering, to competition and client choice at the high end.

In contrast to markets, public policy processes rely on citizen voice and participation for responsiveness to clients. Walsh (1995) has recognised a continuum of public provision models from quasi markets and contracting to direct provision, depending on the reliance on choice or voice. Voice is exercised through direct consultation (Pollitt 1996) and citizen-based accountability mechanisms (O'Faircheallaigh, Wanna & Weller 1999). Shand & Arnberg (1996) examined different client-supplier relationships, and recognised a continuum of client involvement and discretion in service delivery. This involvement varies from information at the low end, through consultation to control at the high end. These continua highlight the considerable variability in contexts for different public services.

From an economic perspective, accreditation systems, quality indicators for benchmarking and quality standards in charters, are substitutes for consumer sovereignty in a market model of service provision (IC 1996). From a public policy perspective, performance reporting in accreditation, benchmarking and charters is a voice mechanism to improve

client responsiveness. The test of client-oriented public services is evidence of quality and value from the client's perspective. There are two problems in relying performance reporting as a voice mechanism. The first is the conceptual and technical complexity of defining service quality in standards and indicators, and this is a problem for public and private services. The second problem is that quality standards and indicators, taken from services management, do not take into account the characteristics of public services (Walsh 1994 & 1995).

In summary, the PC and its reports have been instrumental in the broad application of contracting to social welfare services. The case for contracting is competition and choice. The imperative for client responsiveness in competitive markets is customer choice and its link to economic value measured by profitability. The alternative is accountability mechanisms that rely on regulation and voice. The imperative for public services is citizen voice and its link to social value. A competitive market model elevates customer choice and economic value in determining access to services. The principle is individual access based on ability to pay. Public policy is a political model that elevates citizens' rights and social value. Program funding and eligibility determine access to services. The principle is universal access based on needs. Tax funding with universal access is the most collectivist approach, and user pays is the most individualist approach (Flynn 1993).

Contracting has blurred the distinction between the public and private sectors, and public services are delivered by nonprofit and private agencies. Publicly funded health, education and community services are acknowledged as a difficult case for defining and reporting on quality. These services are classified as 'professional' in management (Maister 1993; Kotler & Bloom 1984; Lovelock 1990; Silvestro *et al* 1992). Classification identifies the characteristics of a particular class. The next section examines the 'professional' and 'public' service characteristics, and the implications for defining quality and evidence in performance reporting. (Appendix C explains this classification in greater detail). These characteristics have implications for defining quality and for signalling quality in performance reporting.

5.4 What's in a name?

Official definitions of health, education and community services, vary from 'social welfare' (IC 1996) and 'human' services (SCRCSSP 1997) to 'social infrastructure'

(SCRCSSP 1995), and this signals confusion about the nature of these services. The confusion caused by this imprecise language is indicative of the specification and measurement problems. All public services are the not same, and there is considerably diversity on the three public characteristics discussed in Chapter 3, as well as the three service characteristics discussed in Chapter 4. Dichotomies such as manufacturing/services, discussed in Chapter 4, and public/private, discussed in Chapter 3, disguise the variation in service contexts that have implications for transfer. The issues relate to the nature of professional-client relationships and process quality for public services. Information asymmetry is a problem in provider-client relationships for professional services, and process quality has equity dimensions for public services.

TQM is a production process model that introduces quality, defined by customers, into the performance equation (Silvestro 1998). Total Quality Service (TQS) is a service process model that introduces process consumption by customers into the performance equation. The Service Profit Chain introduced value and the economics of quality into the performance equation. Customer service is a market model of process quality, and the service profit chain is a market equity model. TQP (Kettl 1994) is a public service model based on client participation and citizen voice.

Classification is a prerequisite for systematic comparative analysis. The purpose of classification in this study is to examine the consequences of taking quality improvement techniques from business to public services. A public/private dichotomy that usually frames debates about transfer is applied to sectors or organisations. This leads to contrasts such as Stewart & Ranson's public and private *sector* models of provision (Stewart & Walsh 1992). Supporters argue market-type mechanisms have rendered traditional environmental and organisational boundaries and the public/private classification. Opponents argue universality ignores the particulars of the public context. The context of interest in this study is *services*, not agencies or sectors. So the issue is the significance of the particulars, or differences, between *services* and as Chapter 4 demonstrated, the issues around transfer are not captured in a public/private dichotomy. Health, education and community services are funded from the public purse, but are provided or delivered by public, non-profit and private agencies. A sector or organisational focus is confusing, and a public/private dichotomy does not capture significant differences in context with implications for defining and signalling quality.

5.4.1 A typology of professional and public service qualities

Services are diverse, and Chapter 4 identified three sources of variability with implications for defining and reporting on quality. Intangibility, coproduction and provider client encounters in delivery create problems in defining and reporting on quality. This explains problems in taking a production process model of 'inputs-outputs-outcomes' from manufacturing to services. Professional services are acknowledged as a difficult case. These problems are exacerbated by the 'public' characteristics discussed in Chapter 3. Social value, collective decisions and public accountability are 'public' attributes that change the nexus between costs, quality and value, and this requires a different approach to performance reporting. This explains problems in applying measures of service quality from business to public services. The implications for monitoring the quality of these professional and public characteristics are summarised in Table 5.2 over the page.

The Australian Council of Professionals, has adopted a comprehensive definition (ACP 2001):

A profession is a disciplined group of individuals who adhere to ethical standards and uphold themselves to, and are accepted by the public as possessing special knowledge and skills in a widely recognised body of learning derived from research, education and training at a high level, and who are prepared to exercise this knowledge and these skills in the interests of others.

It is inherent in the definition of a professional that a code of ethics governs the activities of each profession. Such codes require behaviour and practice beyond the personal moral obligations of an individual.

Control of quality lies at the heart of the traditional notion of professionalism, particularly in fields such as education and health care, and this is under attack in NPM (Pollitt 1990b; Walsh 1995). Advocates of professional autonomy argue that this protects the public from the hazards of 'caveat emptor', in which their ignorance places them at risk. Critics, including the PC, argue it is essentially an oligarchy tendency to reduce public accountability (PC 2000b).

Table 5.2
Professional Public Service Characteristics and Quality Issues

| Characteristics | Issues for defining and reporting on quality |
|--|--|
| Professional services | |
| <i>Intangible experiences</i> High credence attributes and expert professional knowledge create information asymmetry between providers and clients. | Quality is harder to specify and measure. Professionals control technical quality standards. Clients evaluate quality process dimensions and trust in provider. Monitor provider and client perceptions on quality. |
| <i>Coproduction</i> Active participation of consumers in service delivery increases complexity and customisation increases divergence in service delivery system. High complexity and divergence in delivery system Consumer present during delivery | Links between service outputs and outcomes are harder to separate, standardise and measure. Client participation in delivery affects costs, quality and value. Monitor interactive productivity and quality Access and social interactions with service provider and the service environment affects client perceptions of quality and value. Monitor client perceptions of process quality. |
| <i>Direct provider-client encounters</i> Human services Direct personal encounters in service delivery. Customer-consumer nexus | Access, social interactions with service provider and service delivery environment affect consumers' perceptions of process quality. Monitor clients' perceptions of process quality. |
| Public services | |
| <i>Social value</i> High social value Public interest/benefit measured by social indicators | Specify and monitor outcomes against public policy objectives. Specify standards and measure social value (public benefit) and economic value (utility) Access and equity indicators to monitor social value. |
| <i>Collective choice</i> Direct by clients (possibly involuntary) and indirect by community with different perceptions on service outcomes | Clients and community (citizens) have different perspectives on service performance. Set standards and monitor service delivery (outputs) and outcomes. Monitor different perspectives on appropriateness of service: <ul style="list-style-type: none"> • users (outcomes and outputs for clients) • citizens (outcomes and outputs for community) |
| <i>Public accountability</i> Multiple stakeholders with different objectives and perceptions of performance Complex principal agent relationships | Funders and providers have different perspectives on accountability for performance. Assign responsibility for services and link to outcomes: <ul style="list-style-type: none"> • political (policy outcomes) • managerial (service delivery) |

Source: This classification was first described in McGuire (1996) and subsequently revised in McGuire (1998c) and McGuire (2001). Appendix C provides explains how this was derived from classifications in services management and public management.

Professional bodies hold members to account through self-regulation by peer review. Legislation governing professional service standards varies considerably between the States and Territories. Standards are a mix of self-regulation by professional associations, legislation and independent certification. Self-regulation by the professions is under progressive review by the NCC in the context of NCP (NCC 2000a & 2000b), and has attracted the attention of the PC (PC 2000b). The issues are who controls professional standards of conduct and whose interests are served by self-regulation. NCP starts from the principle that regulation should serve community, not professional interests.

Professional service workers, who interact directly with clients, are Lipsky's street-level bureaucrats, and are gate-keepers with considerable control over who gets access to services (Crompton & Lamb 1986). Independent performance indicators are intended to shift control over distribution from professionals to clients needs (Walsh 1995).

As discussed in Chapter 4, professional services are high on credence attributes, require active consumer participation in coproduction and involve direct personal encounters with professionals in delivery, and this requires different quality measurement methods (Silvestro 1997). The characteristics of professional services that create problems for monitoring quality relate to their relationships with clients. Professional services usually require a high degree of customisation and have personal client contacts in delivery (Maister 1993). Consequently management principles from industrial or mass consumer marketing based on standardisation of outputs and supervision, are 'not only inapplicable but may be dangerously wrong' (Maister 1993, xv). Reflecting on extensive consulting experience, Maister (1993) recognised that managing professional services is 'a question of balance'. Signalling quality to clients, and balancing professional and client views on quality, are particular challenges (Maister 1993; Kotler & Bloom 1984).

So the issues for performance reporting are clarity in the evidence to signal quality, and balancing the interests of professionals and clients who have different views on quality and value. The credence attributes of these services mean that evaluation by clients concentrates on process quality, while professionals are focused on technical quality.

Balanced reporting requires standards and indicators that reflect both professional and client views.

The imperative for responsiveness to clients in the Service Profit Chain is the same for professional services, and client relationships are a key driver of performance (Heskett *et al* 1994). However, as discussed in Chapter 4, provider-client relationships are characterised by asymmetric information, and uncertainty about quality is more acute for professional services.

Specifying quality standards and indicators is not easy for professional services, but is more so for public services (Walsh 1991a & 1994; Smith 1993; Carter 1998; Pollitt 2000). Professional public services are usually located at the low end of contestability continuum (Common, Flynn & Mellon 1992; Walsh 1995). The 'public' characteristics discussed in Chapter 3 exacerbate the problem of defining and reporting on quality for professional services. Public services provide social value, are allocated by collective voice in policy processes, and are subject to public accountability tests. Indicators of social value are equity and fair processes. Access and entitlement to public services is decided by collective choice, through public policy processes. Client responsiveness relies on voice and information more than choice and exit. Voice is exercised through participation, complaint and redress (Walsh 1991b; Quiggin 1999). Public funding requires public accountability tests that include equity, and transparent performance reporting is a test of public accountability. Equity requires a different approach to defining and measuring quality.

As explained in Chapter 3, these 'public' characteristics of services add to the problems in defining and reporting on quality for professional services. The nexus between outputs and outcomes is more complex, and the quality imperative is different for public services. This requires a different approach to quality standards and evidence in performance reporting. Equity has no place in the service profit chain. The benefits of public services are consumed collectively by the community as well as privately by users. These are different stakeholders with an interest in performance, which means service delivery has to be evaluated from multiple perspectives. Accountability tests are based on performance outcomes against public policy objectives specified in legislation.

Quality is always contentious for budget-constrained public services that have excess demand. The power of the purse is in the hands of government purchasers, not consumers' willingness to pay. The quality imperative is weaker than the productivity imperative. Conceptual and technical difficulties in defining and measuring the quality of professional services add to the problem of the contested nature of performance for public services. Professional qualities test the limits of performance measurement, and public qualities test the limits of business definitions of quality.

5.4.2 Funder-provider and professional-client relationships

The issues around transfer relate to these 'professional' and 'public' qualities. Information asymmetry and conceptual ambiguity explain gaps in performance reporting that limit responsiveness to clients' needs. Information asymmetry in the provider-client relationships for professional services exacerbates information asymmetry in the funder-provider relationships. Ambiguity in the concept of quality, discussed in Chapter 4, is amplified when techniques from business are applied to public services (Pollitt 1988, Walsh 1991a).

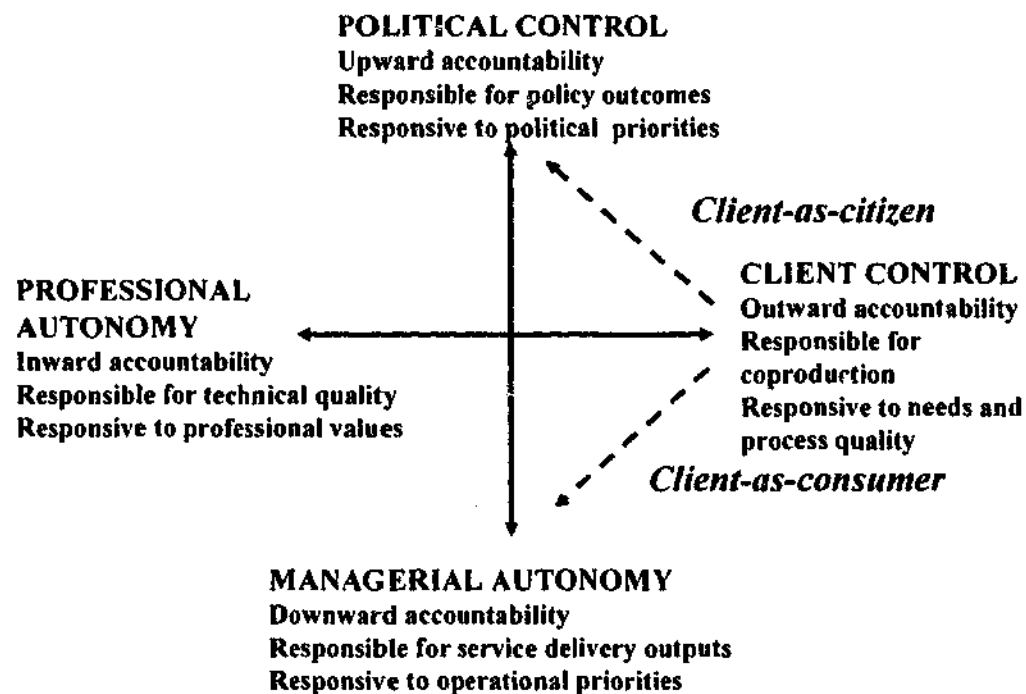
Information asymmetry in the two strategic relationships, introduced in Chapter 2, is shown again in Figure 5.1 over the page. Funders, providers, professional and clients have different roles (DoF 1995b), but share responsibility for quality. On the funder-provider axis, the issue is political responsiveness to public policy priorities. Cost-effectiveness is a strategic imperative for budget-constrained public services. Funders and providers have different information on the quality of outputs, and on the value of outcomes.

On the professional-client axis, the issue is responsiveness to clients' individual needs. Professionals and clients share responsibility for the quality of service outputs and provide different evidence of quality. Customising services for quality is a strategic imperative in this relationship. This is complicated by the dual role of clients as consumers/coproducers of services and as citizens.

In theory, specifying and measuring technical and process quality of service outputs linked to social policy outcomes, will overcome information gaps in contracts and service agreements. In practice, different definitions of quality and information asymmetry create gaps in performance reporting that limit accountability and

responsiveness. Information asymmetry between funders and providers creates gaps in performance reporting that limits accountability and responsiveness. Funders want information about service outputs linked to policy outcomes, professionals have information about technical quality and clients have information about process quality.

Figure 5.1
Strategic Relationships



Separating and assigning responsibility for quality in these complex relationships is one problem for performance reporting. Another problem is ambiguity in the concept of quality that originates in management theory and practice. Universal application of service process models from business to public services ignores the particulars of different service contexts. Purchaser-provider contracts, output and outcomes budgets and customer service models suggest a clarity that does not exist in practice for professional public services. However, critics of business applications argue that managing public services is fundamentally different (Allison 1979; Walsh 1991b & 1995). However, this ignores the problems of poor service agents responsible for delivering public services, that the new accountability mechanisms are trying to overcome. As Corbett (1996) suggests, both sides in this debate have a partial truth.

Some means is necessary to evaluate or assess public services. Balance and clarity in performance reporting requires evidence of the quality of service outputs linked to policy outcomes. QA, customer perceptions and results, as discussed in Chapter 4, are different definitions and use different evidence to signal quality. These differences and the limitations for accountability for public services, are summarised in Table 5.3 on the next page.

Quality assurance: In theory quality standards and indicators from a 'consumer' perspective overcome provider capture. Assurance through certification or accreditation increases external control, and this can be used to introduce a client perspective. However, professionals have a high degree of autonomy, derived from specialist qualifications, and this makes it difficult for both funders and clients to exercise control. In theory, professional autonomy is balanced by a fiduciary relationship with clients, meaning a responsibility to exercise a duty of care. These responsibilities are specified in professional standards and codes of conduct.

Customer' perceptions: As discussed 'customer' is a slippery concept for public services, and in practice there is a complex set of stakeholders to be 'satisfied'. It is these multiple accountabilities that limit the usefulness of business models. The systems that fund and deliver professional public services are complex, and this tends to limit and obscure accountability rather than making it more transparent.

Results: Social value means equity has to be added to the performance equation for public services, and this is democratic, not market equity, (Wilenski 1988; Selznick 1995). Equity issues arise because public services are rationed. As Carter (1991) eloquently explains, the equity issue is how one patient got there and another did not.

So the issues for performance reporting are clarity in the evidence used to signal quality, and balancing the different interests of funders, service providers, clients and professionals. The quality imperative and provider-client relationships are different for public services, and this requires a different approach to responsiveness. Clients are consumers with needs and wants, and citizens with rights and entitlements to fair processes. Process quality for public services has customer service and equity dimensions that have to be included in performance monitoring. External performance

Table 5.3
Three definitions of Quality for Public Services

| DEFINITIONS OF QUALITY | | |
|--|---|---|
| Conformance to standards | Fit for intended purpose | |
| Quality Assurance | Customer perception | Results |
| Quality is defined by attributes | Quality is defined by attitudes | Quality is defined by value |
| Quality is defined as technical and process specifications | Quality is defined as 'fit for purpose' from a customer perspective on outcomes | Quality is defined as 'fit for purpose' from a provider perspective on outcomes |
| Quality is defined in internal specifications or external standards set by certification or accreditation agency | Quality is defined in standards and indicators set in consultation with customers | Quality is defined in targets set by service providers |
| Quality is controlled by inspection and auditing compliance with standards | Quality is controlled by monitoring customer perceptions of service outputs and outcomes | Quality is controlled by monitoring outcomes |
| Monitor and report on compliance with specifications, certification and quality assurance standards | Monitor and report on customer perceptions of quality and value of services to customers | Monitor and report on results against provider's objectives and value the impact of quality |
| Focus on inputs, activities and delivery processes | Focus on service delivery outcomes for customers | Focus on service delivery and outcomes for providers |
| Indicators: Reliability Accreditation Quality certification | Indicators: Customer satisfaction indices SERVQUAL instrument SERVPERF instrument Complaints | Indicators: ROQ Revenue Customer retention Customer loyalty Referrals |
| Accountability for activities and processes | Accountability for customer perceptions of service delivery | Accountability for service delivery outcomes for provider |
| Monitor compliance processes against professional standards | Monitor customer attitudes, satisfaction and complaints | Monitor outcomes against objectives and value the impact |
| Accountability limitations for public services | | |
| Links between resources, activities, processes are complex | Customers' who pay for services, consumers who use services and citizens with rights and entitlements have different perspectives on quality and value. | Separate funders, purchasers and providers have different perspectives on quality, value and performance outcomes |
| Services are delivered in systems | | |
| Outputs are hard to separate for different services processes and agencies in system | Multiple stakeholders with different expectations & perceptions | Public services have social value Process quality has equity dimensions |

Note: This table was first published in McGuire, L. (2001) Service Charters - global convergence or national divergence? A Comparison of initiatives in Australia, the United Kingdom and the United States, *Public Management Review*, Vol. 3, No. 4, 493-524.

reporting is intended to shift the control from professional to clients, and from service providers to funding agencies.

5.4.3 Client paradox: consumers and citizens

The language and logic of marketing underpins slogans such as 'responsive government' and 'customer focused' public services. The benefits of public services are consumed collectively by the community, as well as privately by users (Walsh 1991b; Orchard & Stretton 1994), so 'provider-customer' relationships are complex for public services.

As discussed previously, 'customer' is an ambiguous concept, and confusion about responsiveness arises because recipients of public services wear more than one hat (Mintzberg 1996). Customers as clients or recipients of services, is one responsiveness hat. Customers as tax payers', who delegate responsibility to elected politicians, is another responsiveness hat. Public services have a complex set of stakeholders with different interests to be 'satisfied'. There are complex trade-offs between competing interests to balance (Mintzberg 1996).

Consumers and citizens are different perspectives on provider-client relationships for public services. Clients as consumers and coproducers in delivery is a different perspective from clients as citizens with rights and responsibilities (Walsh 1991b; Kettl 1996). The social paradox (Poole & van de Ven 1989) identified in this chapter offers alternative or partial views on client relationships. Dobuzinkis (1997) suggests client responsiveness is fraught with intriguing paradox. As Pollitt (1994, 171) explains:

To be a consumer is to hold a particular position in a network of market relations. To be a citizen is to be a member of a political community, a much richer concept embracing a much wider range of potential relationships.

The issues are the imperative for responsiveness to the individual needs of clients, and process quality for public services. The tension is between citizen voice and consumer choice mechanisms for client responsiveness. Customer service and procedural fairness are different measures of process quality for public services. When the delivery of public services is contracted out or privatised, administrative law remedies do not apply, and funding agencies have to rely on contract remedies for non-performance (Brennan 1998; Davis & Wood 1998). However these remedies do not

apply to the public and citizens or consumers who are not parties to the contract (Brennan 1998, 25; SFFPARC 1997). The effect is to reduce client control.

Quality indicators and standards, as strategies for more responsive service delivery, are based on the assumption that applying marketing techniques can improve quality, and there is some truth in this (Walsh 1994). However, consumers and citizens are different conceptions of provider-client relationships (McGuire 1997a&b, 1998b, 2003b). Confusing the nature of these relationships leads to confusion in defining and reporting on quality. Responsiveness to consumers is important, but only one dimension of responsiveness. As Bynoe (1996: 25) argues:

People receiving public services – or their public agents - are more than mere shoppers in some social supermarket.

Customer service leaves technical quality and equity out of the performance equation. Customer service language brings with it a market logic, to which has to be added democratic logic (Walsh 1994). For public services such as health, education and community care, responsiveness to the needs of clients depends on voice rather than choice mechanisms.

Funders, providers, professionals and clients share responsibility for quality. Trust is essential to funder-provider and to professional-client relationships, precisely because it is difficult to separate responsibility, and to define and assess quality. Certification or accreditation is one way of signalling quality to funders and to clients. Indicators and measures is another way of signalling quality, and both have limitations for public services.

In summary, the issues around transfer raised in this chapter relate to definitions of quality and the nature of relationships for public services. Specifying and reporting on quality is particularly difficult for professional public services. The problems arise from the 'professional' and 'public' characteristics of these services. Intangibility, coproduction and provider-client encounters in delivery create problems in defining and reporting on quality for services, and professional services are acknowledged as a difficult case. This explains problems in taking a production process model of 'inputs-outputs-outcomes' from manufacturing to professional services.

Professional services are process rather than product-oriented, customised rather than standard, and high on direct provider-client interactions. Standardising service outputs is difficult because of the active role of consumers in delivery (Silvestro *et al* 1992). Specifying quality is difficult because professional services are high on 'credence attributes' (Silvestro *et al* 1992; Walsh 1995). Professional qualities test the limits of performance measurement, and public qualities test the limits of economic definitions of quality.

Social value, collective decisions and public accountability create problems in defining and reporting on quality for public services. This explains problems in applying measures of service quality from business to public services. Process quality for public services includes procedural fairness. Complaint mechanisms and systems for redress are tests of process quality. These 'public' characteristics exacerbate the problem of defining and reporting on quality for professional services.

Professionals and clients share responsibility for quality. Clients are often unable to specify technical quality in any meaningful way and are reliant on professionals to exercise a duty of care that is in essence qualitative, not quantitative. A customer metaphor leads to confusion about the nature of professional-client relationships quality, and process quality, for public services. This ambiguity in theory has practical consequences and explains the confusion in selecting quality standards, indicators and associated information for performance reporting. Customer service and market equity frameworks do not take into account the nature of relationships between providers and clients for public services. There is more to responsiveness than customer service. Responsiveness to clients as 'consumers' is one dimension for public services, responsiveness to clients as citizens is another. Clients as citizens have rights to procedural fairness and redress. If quality is to count, this has to be reflected in performance reporting. Direct accountability to clients attempts to shift control over quality from internal professional standards and codes to external client standards and codes.

5.5 Conclusion

Path dependency of change is explained by economic and social policy in a federal system that fragments responsibility, and two decades of financial and management reform. New accountability mechanisms and budget reform have changed the

relationship between funders, providers, professionals and clients. Outcomes and outputs budgets for social welfare services are changing the basis of funding to designated service units and for particular groups of client (Ryan 1999; Lyons 1998). Contracting and service agreements with autonomous providers require funding agencies to become more sophisticated in the use of performance reporting. The issues in this study are defining quality in standards and indicators, and selecting appropriate information for performance reporting is particularly difficult for professional public services.

Chapter 4 examined the transfer of quality improvement techniques developed for manufacturing to services. This chapter has considered the specific context of professional public services. On continua used to distinguish manufactured goods and services, professional services are an extreme case. On public-private continua social welfare services are an extreme case. Different definitions of quality and information asymmetry explain gaps in performance reporting that limit accountability and responsiveness to the needs of clients. Customer is an ambiguous metaphor for provider-client relationships, and a market equity model ignores public qualities, which creates transfer problems.

Different definitions of quality and information asymmetry in two strategic relationships explain gaps in performance reporting that limit accountability and responsiveness. Four social paradoxes and the particulars of different public services contexts constitute a quality conundrum. The quality conundrum identifies the challenges in defining and reporting on quality for professional public services. The provider-client interface is different for professional services, and the relationship between quality and value is fundamentally different for public services. Consumers and citizens are different perspectives on professional-client relationships. Different definitions of quality change what is reported as evidence of quality. Information asymmetry between funders and providers, and between professional and clients, explains gaps in performance reporting for professional public services. Performance reporting has to link quality of outputs and social policy outcomes, balance technical and process qualities, and balance the different interests of funders, providers, professionals and clients.

Chapter 2 established the shift to specification and measurement to control and improve the quality of public services under contractualism. Funders, providers, professional service workers and clients have different interests in quality. Performance monitoring is intended to increase responsiveness by shifting the balance in control over quality from providers to funders, and from professionals to clients. Chapter 3 established the link between quality and value for public services. Efficiency, effectiveness and equity are 'bottom line' values for public services. Balanced reporting requires measures of efficiency, effectiveness and equity. Quality is a measure of equity and effectiveness. Chapter 4 established that quality has technical and processes dimensions for services. Quality resides in processes for services and can only be inspected during delivery and evaluated by clients after delivery.

Clients and service providers have different perspectives on quality. Whether defined as attributes, attitudes or values, quality differs from service to service. Specifying quality is more difficult for professional services. Chapter 4 established that the precise nature of the relationship between quality and performance is not understood for services. Public services have equity objectives and the links between quality of service delivery and policy outcomes are complex. Measurement of service outputs is easier than evaluation of outcomes.

This chapter has examined the nature of professional public services and the implications for specifying quality in standards and indicators, and selecting measures and information for performance reporting. Contracting fragments responsibility among multiple contractors and separates policy agencies from service providers, raising the prospect of gaps between intentions and outcome (Chalmers & Davis 2001). Transparency through performance reporting depends on standards, indicators, measures and information for performance reporting that captures the significant dimensions of quality. Funders, providers, professional service workers and clients have different information about quality. Procedural fairness is a measure of equity for public services.

The second part of this study examines the consequences of applying quality standards and indicators from business to public services in two cases. The consequences for balance and clarity in performance reporting are examined by considering the issues

around transfer revealed in this and the preceding Chapters. These issues relate to separating responsibility, specification and evidence in performance reporting.

Separation: The issues are separating and assigning responsibility for quality in complex delivery systems and reporting on quality of outputs linked to social policy outcomes. In theory funders specify the service and define quality. Service providers manage service delivery including the professional-client interface. In practice separation is not as clear as the models suggests. Principal-agent relationships are complex, with multiple accountabilities to different stakeholders with conflicting interests. There is a balance to be struck in performance reporting between political control and managerial autonomy, and between client control and professional autonomy.

Specification: The issue is specifying quality in standards and indicators. Services have technical and process qualities, and process quality has equity dimensions for public services. The relationship between quality and value is complex for professional public services. In theory, budgets link the quality of outputs to social policy outcomes. In practice, there are conceptual and technical measurement problems for professional services, and values are contested for public services. Providers and clients have different perspectives on and information about quality. There is a balance to be struck between technical and process qualities, and process quality has an equity dimension.

Evidence in performance reporting: The issue is selection of information for performance reporting. For budget-constrained public services, voice through performance reporting provides the imperative for client responsiveness. The question is whether performance reporting changes the balance from managerial and professional control to political and client control as intended.

In the absence of market contestability, performance reporting is necessary to avoid supplier capture in contract relationships (IC 1996). In theory, clear specification of the quality of service outputs linked to outcomes, and balanced performance reporting is the solution. For quality, this means a range of indicators to measure technical and process attributes and balance of stakeholders' perspectives. In practice, separation in purchaser-provider arrangements and outcomes and outputs budgets, combined with the provider-client interface for professional public services, create a high potential for

information asymmetry and gaps in performance reporting that have consequences for policy and service delivery.

Part II examines these issues by investigating the way quality is defined, and the evidence used to signal quality in performance reporting in two accountability mechanisms. Benchmarking (Chapter 6) and service guarantees (Chapter 7) are different accountability mechanisms and quality improvement initiatives. Following from the analysis so far, three questions for investigation in the cases are:

1. Who is accountable for quality?
2. How is quality defined?
3. What is the evidence of quality in performance reporting?

These questions determine what is counted as quality. Different definitions of quality and information asymmetry between funders and providers, and between professionals and clients, explain gaps in performance reporting. This has consequences for policy evaluation and budget priorities, and for the balance between costs and quality of service delivery.

Chapter 6 examines quality indicators and measures in performance reporting by the SCRCSSP to COAG from 1995 to 2001. Chapter 7 considers quality standards in service charters and performance reporting to the Commonwealth parliament from 1997 to 2001.

CHAPTER 6

PERFORMANCE REPORTING FOR COAG:

'DOING MORE WITH LESS'

6.1 Introduction

Quality indicators and measures in performance reporting by the Steering Committee for the Review of Commonwealth/State Service Provision (SCRCSSP) for the COAG from 1995 to 2001, are investigated in this the first case. In 1993 a Special Premiers Conference established the Review to develop objective and consistent data on the performance of government funded social services that are "central to the well being of Australians" (SCRCSSP 2000a, iii). General income support payments and employment services are not included in the Review. A Steering Committee for Commonwealth/State Service Provision (SCRCSSP) is responsible for managing the Review and the Committee's secretariat is located in the PC.

The Review is a cooperative development between the Commonwealth, State and Territory governments (the states) for 'whole-of-government' performance reporting. The objective is to benchmark performance across all levels of Government. The Review is intended to fill a missing link in performance management, namely indicators for monitoring the efficiency and effectiveness of government funded services. This is a nationally coordinated program of performance measurement and reporting. The SCRCSSP reports annually to COAG on performance in six key areas: education, health, justice, emergency services, community services and housing. These services are defined in the Review as 'social infrastructure services' and 'human services' (SCRCSSP 1995 & 1997a).

Performance indicators are a mechanism for policy coordination or 'steering' in fragmented systems. In principle, transparent performance reporting improves accountability, and benchmarking results improves policy outcomes and service delivery by changing the focus from providers to consumer needs (Banks 1999b). Transparent performance reporting against nationally agreed objectives, it is argued, will improve accountability, policy coordination and service delivery. The significance of the initiative is the unprecedented scale and scope of performance indicators. Services benchmarked by the Review accounted for \$64 billion in 1999-2000, representing 27% of total government expenditure and 10% of GDP (SCRCSSP 2001,

6). This case study examines performance measurement and reporting in the Review, and reports by the Steering Committee from 1995 to 2001 provide the primary evidence (SCRCSSP 1995; 1997; 1998; 1999; 2000 & 2001).

The Reports provide the only nationally comparable data on education, health, justice, emergency management, community services and housing. These reports are intended for strategic budget, policy planning and evaluation (SCRCSSP 2001). The target audience for the reports is managers in central and line agency to use for budget preparation, strategic planning and policy evaluation (SRCSSP 1998b). The explicit intent is to provide information on costs and service quality so as to assist government decisions by measuring comparative performance (Scales 1997).

Section 2 examines the historical context that explains the development of performance measurement and reporting by The Review. The contextual variables examined in Chapters 2 to 5 explain the emergence of the Review. Path-dependent change is explained by social policy in a federal system and the shift to contractualism for social welfare services. Performance reporting is directed at external accountability and central control, rather than internal agency management. Key features of the approach are transparency, and independent performance measurement against agreed performance indicators. The Review is a work in progress guided by three broad principles – a focus on measuring outcomes, a balanced set of indicators and comparable measures for all governments. Effectiveness indicators and nationally comparable data both represent substantial progress in performance measurement. Quality is included as an effectiveness indicator in the general framework. Conceptual ambiguity is evident and two definitions of quality, 'conformance to standards' and 'fit for purpose', are suggested. Quality indicators selected vary between services and include a mix of client perceptions, service outputs and outcomes. Gaps in indicators and measures limit accountability for quality.

Section 3 examines the agencies and ideas that have shaped the approach to performance reporting in The Review. The head of the PC provides an independent chair for the Steering Committee and the secretariat, responsible for performance reporting, is located in the PC. The philosophical stance of the PC explains the approach to performance measurement. Performance indicators are a substitute for market signals and benchmarking is a substitute for market competition (PC 1999a).

Agreed objectives and transparent reporting against a balanced set of indicators overcome the problem of incomplete information in contractual relationships (IC 1996).

Section 4 considers the consequences of this approach for balanced performance reporting. With the exception of housing, the services in the Review are professional public services. Housing provides a reference point for comparative analysis. The issues around transfer (recognised in Part I) are separation, specification and balanced performance reporting. Benchmarking results is based on a production process model that separates outputs and outcomes. The question is whether performance reporting links quality of outputs to social policy outcomes, and the Review is evidence of this difficulty. Quality is defined in performance indicators and measures. The question is whether the indicators and measures selected take into account the 'professional' and 'public' qualities of the services covered by the Review. Quality assurance and client views are included in some frameworks but there are significant gaps.

Performance reporting has to balance accountability in two directions - the funder-provider interface and professional-client interface. Information asymmetry in these two relationships explains gaps in performance reporting that limit accountability and have consequences for policy and service delivery. External reporting by the SCRCSSP is a strong instrument of accountability, but client views are generally under-reported. The Review shifts the balance in performance reporting to the interests of funders and quantitative measurement. The key features of the Review are summarised in Table 6.1 over the page.

6.2 Performance measurement story

The Review was initiated by the Prime Minister, State Premiers and Chief Ministers of the Territories at a Special Premiers' Conference in 1993. This is the first systematic attempt to develop national objectives and consistent data to compare performance between governments. Performance is defined as "how well a service meets its objectives", and the emphasis is on comparing results defined as "outcomes against agreed national objectives". COAG is committed to performance measurement for social welfare services, and the Review has facilitated agreement on national objectives and collection of comparable measures for performance reporting (SCRCSSP 1997a).

Table 6.1
Benchmarking Social Infrastructure Services

| | |
|--|--|
| Timing | 1994-2001 |
| Objectives | Accountability to government by monitoring outcomes against policy objectives. Performance improvement by comparing the performance of service provision between governments. |
| Accountability | External performance reporting against agreed indicators using nationally comparable measures. |
| Performance Improvement | 'Yard stick' competition by benchmarking results in six state and two territory governments |
| Target audiences | Managers responsible for policy decisions in central and line agencies; service departments; parliament; clients and the wider community. |
| Political support | COAG |
| Responsibility for coordination | SCRCSSP, established in 1994, includes representatives from central agencies of Commonwealth, State and Territory governments. Head of the Productivity Commission is Independent Chair. |
| Responsibility for PIs | Working parties agree objectives and framework of performance indicators. |
| Quality is defined as | Efficiency – 'conformance to standards' and 'fit for purpose'. |
| Responsibility for reporting | Secretariat in the Productivity Commission is responsible for data collection against agreed indicators and preparing reports. |
| Performance information | Six service sectors. Performance indicators for 22 services (2001 Report). Qualitative contextual analysis service systems. Profile (descriptive statistics). Quantitative performance measures. |
| Performance reporting | <i>Report on Government Services</i> (SCRCSSP 1995, 1997, 1998, 1999, 2000 & 2001) |
| Cost | 1998 Report estimated cost of \$808,000. 1999 Report estimated cost of \$1 million (PC Annual Report 1998-99, 80). |
| Contributions | Nationally agreed objectives. Nationally comparable performance measurement and reporting on efficiency and effectiveness indicators. Suite of effectiveness indicators including equity & access Contextual analysis of service systems. |
| Limitations | Reporting based on quantitative measures. Reporting on outcomes. Reporting on client views of effectiveness. Complaints and redress indicators of access & equity. |

The Review compares the efficiency and effectiveness of service provision between the states in six areas: education, health, justice, housing, emergency services and community services. The primary purpose is to develop reliable efficiency and effectiveness indicators to compare the costs of services and results "to assist government decision making" (SCRCSSP 2001 Chapter 1). A second agenda is to

examine ways of improving performance by changing to market-based approaches for service provision (PC 1999a). To this end, the Review has published case studies of service delivery reforms (SCRCSSP 1998b).

The Review has adopted the basic framework for benchmarking 'economic infrastructure services' developed by the Steering Committee on National Performance Monitoring of Government Trading Enterprises (SCNPMGTE). This Committee was established in 1991 and monitored the performance of GTEs from 1993 to 1998 (PC 1999a)

A framework, developed by the PC in its capacity as the Secretariat, benchmarks the performance of 'social infrastructure services' against nationally agreed objectives. Transparent performance reporting is a means to improving accountability, policy coordination and service delivery. Bill Scales, as Chair of the PC and the SCRCSSP, argued (1997, 108):

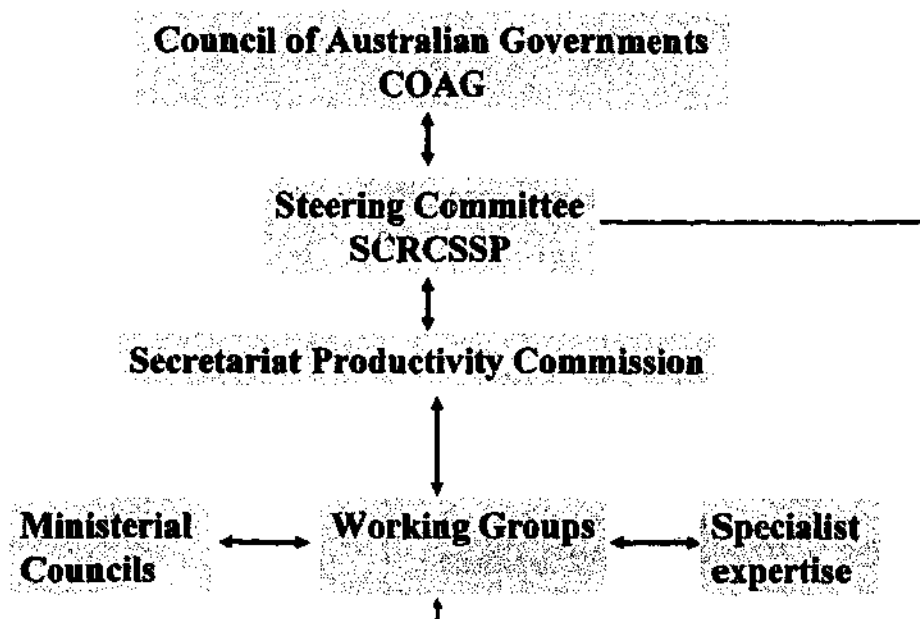
While performance monitoring is not the only tool that can lift public sector performance, it is a very important one. We, as servants of the public, have an obligation to the community to give value for money. This goes beyond dollars and cents of budget papers and program costings. We need to look critically at ourselves to review how we perform, and find ways to do things better.

An annual publication, known as the 'Blue Book', reports on performance in six key areas – education, health, justice, emergency services, community services and housing. These services accounted for \$64 billion in 1999-2000, representing 27% of government expenditure and 10% of GDP (SCRCSSP 2001, 6). Comparative information on efficiency and effectiveness is presented for six state and two territory governments. The reports are intended for use in strategic budget, policy planning and evaluation.

The structure for implementing the Review, shown in Figure 6.1, is a cooperative approach based on participation of all governments. A Committee with the cumbersome title the, Steering Committee for the Review of Commonwealth/State Service Provision (SCRCSSP), manages the Review. This Committee consists of senior officials from central agencies of the Commonwealth and state governments. The Head of the PC is the independent Chair to ensure the cooperation of all

governments (PC 1998a). An independent secretariat in the PC is responsible for reporting against agreed indicators. This independence enhances the reliability of measurement (Pollitt 2000). The PC generally relies on data collected by external agencies, but has commissioned surveys of client views. Responsibility for establishing national objectives and developing performance indicators is delegated to expert Working Groups. Each group includes senior staff of relevant line agencies from the Commonwealth and states who take advice from specialist research groups, such as the Australian Bureau of Statistics and the Australian Institute of Health and Welfare.

Figure 6.1
Reporting Relationships in the Review



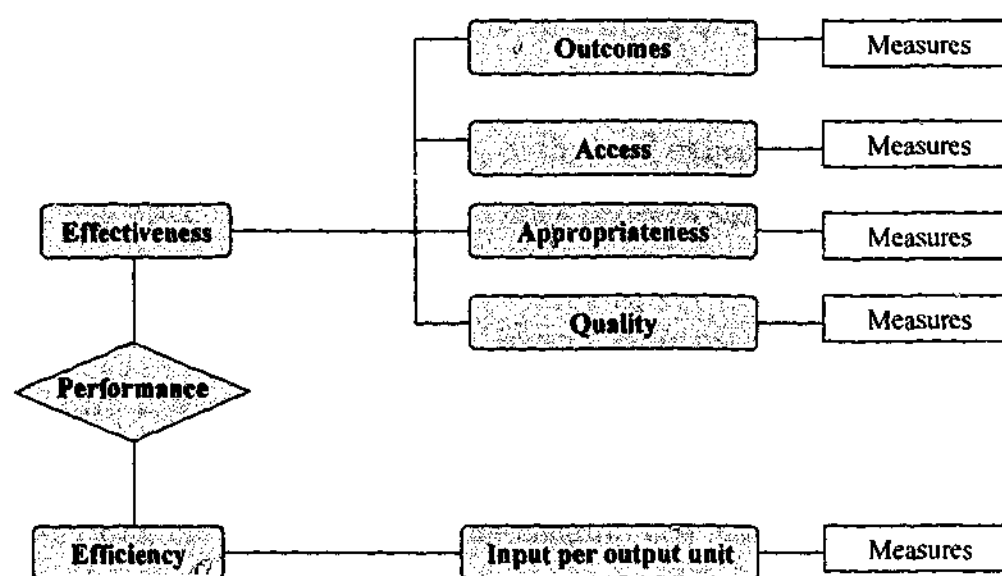
Source: Adapted from Figure 2.1 SCRCSSP 1995, 10.

6.2.1 Efficiency and effectiveness indicators and measures

Performance indicators in the Review provide quantitative information used to judge how successful governments are in achieving agreed objectives (IC 1996). A general framework of performance indicators, shown in Figure 6.2, is based on the 'three Es' model of economy, efficiency and effectiveness" (SCRCSSP 1997a, 10). Efficiency is defined as how well organisations use resources to produce units of service and the

general indicator is inputs per unit of output. Outputs are defined as the services delivered to clients by or on behalf of government. Effectiveness is defined as how well the service outputs achieve the agreed objectives. The general framework has four effectiveness indicators. 'Overall outcomes' measures the impact or consequence of a service in relation to policy objectives. Short term (or intermediate) output and longer term (or final) outcome indicators are used. Access and equity indicators measure timeliness, affordability and services to designated groups. In response to a COAG request, the Review is concentrating on developing access and equity indicators for indigenous Australians and people living in rural and remote locations. Appropriateness indicators measure how well service delivery meets clients' needs. Quality indicators measure 'conformance to standards' and/or 'fitness for intended purpose'. These indicators are the basis for comparing performance between the states and making judgements about the efficiency and effectiveness of different approaches to service delivery.

Figure 6.2
Performance Indicators General Framework



Source: Adapted from Figure 2.1 SCRCSC 1997a, 12.

Twelve Working Groups that include central and line agency managers are responsible for developing specific frameworks of indicators for performance reporting. These Working Groups have adapted the general framework to develop a 'suite of performance indicators' for 22 different services. The relationship between the Working Groups and the Performance Indicators Frameworks is shown in Table 6.2 on page 177. Health, housing and emergency management services each have a single working group. In contrast, education, justice, and community services have separate working groups for each service framework. Each Working Group is responsible for agreeing national objectives and selecting performance indicators, and there is considerable variation between different services. Objectives may be specified in:

- legislation, as for aged care,
- formal Commonwealth-State agreements as for housing;
- decided by Ministerial Councils as for school education; or,
- agreed to by the Working Party as is the case for the health and police services frameworks.

According to the Review, specific indicators 'take into account the characteristics of the service, its clients and providers (SCRCSSP 1998a, xxiv).

Table 6.3 on page 178, provides a comparative analysis of efficiency and effectiveness indicators for each service. The balance between efficiency and effectiveness is striking, as effectiveness accounts for 75% of the total indicators. The number and ratio of efficiency and effectiveness indicators varies between services. Housing, police and corrective services have a relatively high ratio of efficiency to effectiveness indicators. Community services generally have the lowest ratio of efficiency to effectiveness indicators. There is some variation in the type of efficiency indicators selected. All frameworks include a measure of cost per service unit. Schools, public hospitals, corrective services, the Supported Accommodation and Assistance Program (SAAP), and the public and community housing frameworks use physical as well as financial measures of efficiency.

Table 6.4 on page 179, provides a comparative analysis of indicators in the different frameworks. There is considerably more variation in effectiveness indicators, both between and within service areas. Only general practice and mental health have selected indicators for all four effectiveness criteria in the general framework. Fire and

ambulance services have specified output and outcome indicators. Public hospitals, aged care and housing have selected quality, appropriateness and access and equity indicators, but outcomes have not been developed.

Table 6.2
Working Groups Responsible for Service Frameworks

| Service Sector | Working Group | Service Framework |
|-----------------------------|---|---|
| Education | Schools Working Group | School education |
| | Vocational Education and Training Working Group | Vocational Education and Training (VET) |
| Health | Health Working Group | Public acute care hospitals General practice Breast cancer management Mental health services |
| | Police Working Group | Community safety and support Crime investigation Road safety and traffic management Services to judicial process |
| Justice | Court Administration Working Group | Court administration |
| | Corrective Services Working Group | Corrective services |
| Emergency Management | Emergency Management Working Group | Fire Ambulance |
| Community services | Aged Care Services Working Group | Aged care services |
| | Disability Services Working Group | Services for people with a disability |
| | Children's Services Working Group | Children's services |
| | Protection and Support Services Working Group | Child protection and out-of-home services Supported Accommodation and Assistance Program (SAAP) |
| Housing | Housing Working Group | Public housing |
| | | Community housing Commonwealth rent assistance |

Notes:

Children's services include day care and preschool services to children aged under 12 years. Child protection services assess allegations of child abuse and neglect; out-of-home placement services are provided to care for children placed away from parents for safety and family crisis reasons. Supported Accommodation and Assistance Program (SAAP) funds services for individuals, and families who are homeless or at risk of becoming homeless. Public and community rental housing is funded by specific purpose payments under the Commonwealth-State Housing Agreement (CSHA). Public housing is provided by state and territory housing authorities. Community housing is provided by not-for-profit agencies and local governments. Commonwealth rent assistance (CRA) is an income support supplement paid to individuals and families who pay private rent.

Table 6.3
Performance Indicators and Nationally Comparable Reporting 2001

| Service Framework | Efficiency | | Effectiveness | | Total | |
|-------------------------------------|------------|-----------|---------------|-----------|------------|-----------|
| | Indicators | Reporting | Indicators | Reporting | Indicators | Reporting |
| Education | | | | | | |
| Schools | 4 | 4 | 10 | 2 | 14 | 6 |
| VET | 4 | 4 | 12 | 8 | 16 | 12 |
| Health | | | | | | |
| Public acute care hospitals | 5 | 4 | 14 | 5 | 19 | 9 |
| General practice | 1 | 1 | 18 | 13 | 19 | 14 |
| Breast cancer | 2 | nil | 11 | 3 | 13 | 3 |
| Mental health | 2 | 1 | 10 | 2 | 12 | 3 |
| Justice | | | | | | |
| Police services | 14 | nil | 18 | 14 | 32 | 14 |
| Courts administration | 1 | 1 | 7 | 4 | 8 | 5 |
| Corrective services | 9 | 4 | 12 | 8 | 21 | 12 |
| Emergency services | | | | | | |
| Fire | 1 | nil | 12 | 3 | 13 | 3 |
| Ambulance | 3 | nil | 8 | 2 | 11 | 2 |
| Community Services | | | | | | |
| Aged care | 2 | 1 | 17 | 10 | 19 | 11 |
| Disability services | 3 | nil | 13 | 8 | 16 | 8 |
| Child care | 2 | nil | 9 | 1 | 11 | 1 |
| Child protection & out-of-home care | 2 | nil | 18 | 4 | 20 | 4 |
| SAAP | 7 | nil | 8 | 5 | 15 | 5 |
| Housing | | | | | | |
| Public housing | 5 | 5 | 7 | 6 | 12 | 11 |
| Community housing | 4 | nil | 7 | nil | 11 | nil |
| Commonwealth rent assistance | 2 | 2 | 10 | 10 | 12 | 12 |
| Total indicators | 73 | 27 | 221 | 108 | 294 | 135 |
| Percentage | 25% | | 75% | | 100% | |
| Reporting as % of total indicators | | | | | 100% | 45% |
| % of total reporting | | 20% | | 80% | | 100% |
| Reporting on efficiency | 100% | 36% | | | | |
| Reporting on effectiveness | | | 100% | 49% | | |

Source: SCRCSSP (2001) Volumes 1 & 2.

Notes:

Indicator refers to specific performance measures against efficiency and effectiveness criteria. Reporting refers to data provided on a nationally comparable basis. Police services aggregates indicators and reporting in four frameworks. All four frameworks have nationally comparable data on some effectiveness indicators but no nationally comparable data on efficiency indicators. Children's services include day care and preschool services to children aged under 12 years. Child protection and out-of-home placements is combined in one framework, but there are separate indicators for 'Child protection services' and 'Out-of-home care'. There are no nationally comparable data for child protection services. SAAP is the Supported Accommodation and Assistance Program that funds services for individuals and families who are homeless or at risk of becoming homeless.

School education, Vocational Education and Training (VET) and the four police service frameworks have selected access and equity as well as outcomes indicators. Childcare has specified outcomes, access and equity, and quality indicators. However a closer inspection of the designated indicators suggests there is considerable overlap between the criteria in different frameworks. For example, 'client satisfaction with appropriateness' is an access and equity indicator for disability services and 'satisfaction with hours of provision' is an outcome indicator for childcare services.

Table 6.4
Reporting on Performance Indicators 2001

| Service | Designated Performance Indicator | | | | | |
|-------------------------------------|----------------------------------|----------|-----------------|-----------------|---------|--------------|
| | Efficiency | Outcomes | Access & Equity | Appropriateness | Quality | Client Views |
| Education | | | | | | |
| School education | ✓ | ✓ | ✓ | x | x | x |
| VET | ✓ | ✓ | ✓ | x | x | ✓ |
| Health | | | | | | |
| Public acute care hospitals | ✓ | x | ✓ | ✓ | ✓ | ✓ |
| General Practice | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Breast cancer | ✓ | ✓ | ✓ | x | x | x |
| Mental health | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Justice | | | | | | |
| Police | | | | | | |
| Community safety | ✓ | ✓ | ✓ | x | x | ✓ |
| Crime investigation | ✓ | ✓ | ✓ | x | x | x |
| Road safety & traffic | ✓ | ✓ | ✓ | x | x | ✓ |
| Judicial services | ✓ | ✓ | ✓ | x | x | x |
| Court administration | ✓ | x | ✓ | x | ✓ | ✓ |
| Corrective services | ✓ | ✓ | x | ✓ | x | x |
| Emergency management | | | | | | |
| Fire | ✓ | ✓ | x | x | x | x |
| Ambulance | ✓ | ✓ | x | x | x | x |
| Community services | | | | | | |
| Aged care | ✓ | x | ✓ | ✓ | ✓ | ✓ |
| Disability services | ✓ | ✓ | ✓ | x | ✓ | ✓ |
| Child care | ✓ | ✓ | ✓ | x | ✓ | x |
| Child protection & out-of-home care | ✓ | ✓ | x | x | x | x |
| SAAP | ✓ | x | ✓ | ✓ | x | ✓ |
| Housing | | | | | | |
| Public housing | ✓ | x | ✓ | ✓ | ✓ | ✓ |
| Community housing | ✓ | x | ✓ | ✓ | ✓ | ✓ |
| Commonwealth rent assistance | ✓ | x | ✓ | ✓ | ✓ | ✓ |

Source: Table 2.1 SCRCSSP (2001) page 20.

6.2.2 Quality indicators and measures

Quality is an indicator of effectiveness and the focus is on service delivery rather than outcomes. Two definitions of service quality are included in the SCRCSSP performance monitoring framework (1998 Vol. 1, 14): 'conformance to standards' and 'fit for the purpose intended'. However, there are more quality indicators based on 'conformance to standards' than 'fit for purpose'. Conformance to standards is measured by the incidence of service failure, accreditation of providers and inputs (staff qualifications). (Conformance to standards is the first perspective on quality in Table 5.3). Interestingly this is not included as a quality indicator in the children's services (child care) framework despite the fact that there is a national accreditation system. Fit for purpose is measured by client and customer perceptions and complaints. (This corresponds to the 'customer perceptions on service delivery' perspective on quality identified in Table 5.3). However, complaint as an indicator of quality is only included in two of the justice frameworks: corrective services and police.

The Steering Committee explicitly states that good indicators capture indirect and direct benefits of service delivery (SCRCSSP 1997a). Outcome indicators are intended to measure indirect or community benefits from service delivery. However, as Table 6.4 indicates, there are gaps in outcomes indicators in a number of frameworks. The Steering Committee has generally used the term 'consumer' to describe the recipients of service delivery noting:

There are different views about whether recipients of some government services should be termed 'patients', 'users', 'customers' or 'consumers' and their use in this report does not imply that the Steering Committee has endorsed any particular term.

As discussed in Chapter 5, this ignores the various client groups with different expectations and needs, and the nature of process quality for public services. A curious mix of customer and client satisfaction indicators is used in the frameworks, which would appear to reflect confusion about the nature of client-provider relationships. Customer satisfaction is designated as a quality indicator in the public rental housing and in the child protection and support placement frameworks. 'Customers' for child protection are the funders who allocate budget resources, and are quite distinct from clients whose participation in service delivery affects social policy outcomes. More significantly, many of the service frameworks do not have an indicator of either quality

or client views, yet alone the views of different client groups. School education, for example, has no client satisfaction or quality indicator.

From the first report in 1995, the need for better indicators of effectiveness has been explicitly recognised and the many changes to the frameworks reflect the search for comparable measures. Clients' views and access and equity measures are not widely available. Client and community perceptions have been identified as "a crucial missing ingredient in ensuring a 'client outcome focus' (SCRCSSP 1997a, v). A national client satisfaction survey was commissioned by the Review to fill this gap for disability services (SCRCSP 2001). Two target groups, indigenous Australians and rural and remote communities, have been designated by COAG for special attention. Some progress has been made on measures for indigenous Australians, but data for people in rural and remote locations is not yet available (SCRCSSP 2001, Table 2.3).

The balance between funder/provider and client interests also varies between services. School education has no client satisfaction or quality indicators, while VET has satisfaction indicators for both students and employers. There are separate indicators for clients' and carers' satisfaction with disability services. As already discussed, many of the service frameworks do not include client views. Complaints and redress are important alternatives to 'satisfaction' surveys to monitor effectiveness from a client perspective, but are not generally included as indicators. Only two frameworks, aged and childcare, include complaints as a quality indicator. Rent assistance is the only framework that includes 'review of decisions' as an indicator of appropriateness.

Variation in indicators is to be expected, given a range of services with different objectives. There is no obvious systematic pattern in the variation. Funding arrangements do not appear to be a factor. For example, program funding for childcare and aged care is tied to accreditation systems. Compliance with service standards is a quality indicator for aged care but not childcare. Outcomes are specified for childcare but not aged care. Police services and emergency management, both funded primarily by the states, have quite different effectiveness indicators. Different Working Groups may explain some of the variation in effectiveness indicators. Housing and emergency management each has a single Working Group, and uses consistent indicators. However, four health service frameworks developed by the same Working Group use different indicators.

Variation in indicators appears also to reflect overlap and confusion between outcomes, access and equity, appropriateness and quality criteria in the general framework. As the SCRCSSP (1997b, 46) notes:

It is difficult to include quality standards as part of the defined output because many variables affect the well-being of patients.

Outcome indicators vary from intermediate short-term outputs, for example immunisation coverage and cancer screening rates in the general practice framework, to long-term outcomes, such as employment for people with disabilities. Of the 22 service frameworks, 10 do not have designated appropriateness or quality indicators.

6.2.3 Performance reporting

Performance information is evidence about performance that is collected and used systematically to enable judgements (Barrett 1997a). The evidence in the Review is quantitative measurement against the indicators selected by the working parties. Reporting is concentrated on outputs that are intermediate measures of outcomes. Public housing is a reference point as the only framework in the 2001 report with complete reporting. Community services generally have lower levels of nationally comparable performance reporting on efficiency indicators. Client and community perceptions were identified early in the project as "a crucial missing ingredient in ensuring a 'client outcome focus' (SCRCSSP 1997a, v). In 2000 the SCRCSSP commissioned a national client satisfaction survey for disability services, and the results were included in the 2001 report (SCRCSSP 2000b).

The purpose of reporting in the Review is to enable policy makers to compare efficiency and effectiveness in the six states and two territories. National averages are the benchmark. There are no league tables of data for individual agencies. Performance reporting is independent and the main objective is to provide 'sound, reliable data' (PC 1999a). The PC coordinates the publication of performance measures by presenting data from a range of sources in a consistent framework and, wherever possible, existing measures are used. Not all of the data published in the Reports is strictly nationally comparable. However, the PC argues it is better to publish imperfect data that enables some comparison, and acknowledge its limitations (Scales 1997).

Comprehensive 'indicator definitions' and 'data dictionaries', have been developed for each service area to expedite nationally comparable performance reporting (SCRCSSP 1997a, 7). Performance measurement is independent of, but informed by service providers (SCRCSSP 20001a). The main objective is to provide 'sound reliable data' (Scales 1997; PC 1999a). Performance reporting in 2001 is summarised in Table 5.

Performance is reported for services in each state and territory. No data is provided for individual agencies (Banks 1998). Reporting on each service area consists of two parts. A qualitative profile of the service and policy developments is the first, and the second is quantitative measures of results against indicators. Combining quantitative measures with contextual analysis of the service systems increases the validity and usefulness of performance information (Owen & Rodgers 1999). Comments from each government are included for each service. Definitions of performance measures and tables of all available data are published for each service framework.

This is a serious project backed by substantial resources and the political authority of COAG. The scale and scope of performance information is unprecedented in Australia. Published in December 1995, the first report was 681 pages and included more than 100 indicators for ten different services. Eight of the ten frameworks were designated preliminary, and the report exposed many gaps in available measures and data inconsistencies between the states (SCRCSSP 1995). By 2001 the report had expanded to 1514 pages with 294 indicators for 22 different services. Since 1997 the 'Blue Book' has been published annually. Services are grouped into the six service areas (education, health, justice, emergency management, community services and housing), to monitor outcomes at a system level. Reporting consists of two parts - a qualitative profile of the service and policy developments, and quantitative results against agreed indicators. Comments from each government are included for each service. Definitions of performance measures and tables of all available data are published for each of the 22 service frameworks (SCRCSSP 2001).

Reporting on nationally comparable performance measures also varies considerably between services. The status of reporting in 2001 is shown in Table 6.3. Nationally comparable performance data are reported for 45% of all indicators. Overall reporting is balanced with comparable measures for 36% of efficiency and 49% of effectiveness indicators. Whilst reporting on efficiency indicators increased significantly in 2000 and

2001, there is considerable variation between services. School education, VET, general practice, public housing and rent assistance have comparable data for all efficiency indicators, and public hospitals on four out of five efficiency indicators. In contrast, police, emergency services and four of the five community services frameworks have no comparable reporting on any efficiency indicators. The Review is working to develop nationally comparable efficiency measures that reflect the full cost to government (SCRCSSP 2001, 20).

From the first report in 1995, the need for better indicators of effectiveness has been explicitly recognised and although comparable measures are not always available. Reporting is concentrated on outputs that are intermediate measures of outcomes. Rent assistance has nationally comparable reporting on all effectiveness indicators, making this the only framework with reporting on all designated indicators. Public housing is almost complete, with comparable data on six out of seven effectiveness indicators. At the other end of the spectrum, child protection services has no nationally comparable performance reporting on any effectiveness or efficiency indicators. State responsibility for service delivery and professionals resisting measurement may explain gaps in performance reporting. Police services, where the states are primarily responsible for funding and delivery, have comparable data on 14/18 effectiveness but no efficiency measures. Public hospitals, the largest item of health expenditure and funded primarily by the Commonwealth, have comparable reporting on 4/5 efficiency but only 9/19 effectiveness indicators. The 1998 report expressed continuing concern at the lack of agreed indicators for quality of care for health and comparable data on learning outcomes for schools (SCRCSSP 1998a, xxxii).

The performance indicators in the Review are 'tin openers' that track policy outcomes. Notwithstanding the gaps, the Review represents substantial progress in performance reporting on effectiveness. Prior to this, the only nationally comparable performance information for the states was Commonwealth Grants Commission (CGC) data comparing costs and expenditure per capita used to decide the allocation of general revenue grants by the Commonwealth to the states. In contrast, the data published by the Review enables some comparison between the states of the efficiency and effectiveness of services.

Assessing the impact of performance reporting is difficult. The 'Blue Books' are intended for use by government agencies in all jurisdictions to assess performance and determine agency resources (SCRCSSP 1999, iii). Performance reporting is a mechanism for external accountability, policy coordination and internal management improvement. The purpose of reporting in the Review is (SCRCSSP 1995, iii):

to inform parliaments, governments, government service agencies, and the clients of these agencies - the wider community - about their overall performance, based primarily on results rather than inputs.

Accountability, policy coordination and responsive service delivery are different ends. Parliament, policy makers, service providers, clients and the community have different interests and want different performance information. Monitoring results, against agreed national social policy objectives is the primary purpose of performance measurement in the Review. The target audience is managers in central and line agencies who are responsible for budget preparation, strategic planning and policy evaluation (SRCSSP 1998). According to the PC the reports are widely used in government and non-government agencies, and the methodology has attracted international interest from other OECD governments including the USA (PC 1999a, 79).

A survey of users revealed a high level of awareness and use of the reports by government and non-government agencies (SRCSSP 1998b). Users considered the Reports 'important or very important' for strategic and policy planning and evaluation (80%), assessing resource needs (63%), assessing performance (76%) and benchmarking (65%). Information was generally regarded as highly credible, relevant and timely. Central agency users considered the Reports more important for strategic or policy planning and evaluation than line agency users. In contrast line agency users considered the Reports more important for assessing resource needs (SCRCSSP 1998b). Parliament and the wider community were not included in the survey.

Path dependency of change explains the development of performance indicators and measures by the SCRCSSP for benchmarking the results from publicly funded social infrastructure services. The Review is a cooperative development to provide the efficiency and effectiveness indicators and measures necessary to benchmark performance across all levels of Government. The official story in the reports is

transparent performance reporting against nationally agreed objectives to improve accountability, policy coordination and service delivery. Three questions posed for the case were:

1. Who is accountable for quality?
2. How is quality defined?
3. Does reporting on quality balance the interests of funders, providers, professionals and clients?

Funders are more accountable for service outputs and outcomes through independent external reporting by the SCRCSSP. The story in the Review is one of performance measurement. Quality is defined in indicators and measured based on two definitions - 'conformance to standards' and 'fit for purpose'. The Review attempts to balance performance reporting by including quality as a measure of effectiveness and, as a consequence of performance reporting, there is more information about service quality. However, not all frameworks include a designated quality indicator and there are significant gaps in suitable measures for designated quality indicators. The next section considers the approach to performance reporting in the Review. The philosophical stance of the PC has been a key influence on the method of performance reporting in the Review.

6.3 Benchmarking Results

As Chair of the Steering Committee and Secretariat for the Review, the Commission has a major influence in shaping the approach to performance measurement and reporting. As discussed in Chapter 5, the reports of the PC and its predecessor the IC, have been instrumental in extending the microeconomic reform agenda to social welfare services (PC 1998a). The Commission recommended the broad application of CTC to public services and directly linked social welfare reform to improving productivity and competitiveness (IC 1996; PC 1996). The Commission has applied an economic framework, developed for evaluating industry assistance, to inquiries on Public Housing (IC 1993) and Charities (IC 1995a), and to the social dimensions of public policy (Banks 1999b). The performance of the health and community services sectors have been designated by the PC as key areas for attention (PC 1998a).

6.3.1 Productivity Commission

With the status of an independent statutory authority, the PC's policy recommendations have always been based on consultative processes of public inquiry and reporting (Banks 1998; PC 1998a). Independent, transparent analysis, open consultative processes and intellectual rigour, hallmarks of PC inquiries, have been applied to the Review.

In an earlier project for COAG the PC, as the secretariat for the SCNPMGTEs, was responsible for comparative performance reporting on 'economic infrastructure services' (PC 1998b). A general framework of efficiency and effectiveness indicators was developed to benchmark the results of electricity, gas, water, urban transport, railway and port services provided by government trading enterprises (PC 1998c). This framework has been applied to what the PC describes as 'social infrastructure services' in the Review, and to local government services (IC 1995a & 1997a).

The Review argues that performance measurement facilitates continuous improvement by requiring governments to make objectives and comparative performance transparent (SCRCSSP 1997a, xxiii). Benchmarking, applied to social welfare services for was canvassed by the IC report on Charitable Organisation in Australia (Chapter 13 1995). The arguments are quite explicit (Scales 1997). First, greater transparency in performance and accountability will lead to better outcomes. Second, outcome indicators will focus debate on objectives rather than processes. Third, a 'suite of indicators' can capture all areas of performance. To this end the SCRCSSP has concentrated on developing frameworks of performance indicators and nationally comparable measures for performance reporting. The requirements for measurement identified by the Committee are a suite of performance indicators, a complete set of measures and high quality data. The question is whose interests are represented in the performance indicators and measures selected for reporting.

The Review directly confronts the problem of specifying outcomes and selecting quantitative performance measures for public services. Establishing linkages from policy objectives to agency outputs and outcomes is one problem (Pollitt 1998). Selecting output and outcomes indicators and measures is another (Carter 1998). Both tasks are difficult for public services, particularly for the services covered by the Review. A balanced performance measurement system needs measures of outputs or

efficiency and measures of outcomes or effectiveness (Pollitt 2000). The challenge the SCRCSSP and the Working Parties are grappling with is developing a 'framework for measurement' that can accommodate the complexity of relationships that characterise publicly funded social services.

6.3.2 'Yardstick' competition

Benchmarking results by comparing 'cost-effectiveness', not best practice, as is the basis of performance reporting in the Review. 'Value for taxpayer funds' is established by comparing the efficiency and effectiveness of service provision between the states. In the absence of market competition, 'yardstick' competition is a second best solution to improve productivity efficiency and responsiveness to users. Comparison based on efficiency and effectiveness criteria is a substitute for market competition. Performance indicators and measures substitute for market price signals (SCRCSSP 1995; PC 1999a).

The performance improvement logic of reporting is that indicators are a substitute for market signals and benchmarking a substitute for market competition (PC 1999a). The language of 'yardstick competition' is economic rhetoric. The assumption is that measuring and benchmarking the performance of social infrastructure will lead to improvements in service delivery and policy outcomes (Banks 1999b). The accountability mechanism is external reporting by the Secretariat located in the Productivity Commission.

Performance indicators are a substitute for price signals in 'yardstick competition'. The principle is that benchmarking results will improve service delivery, and transparent indicators and performance reporting will enhance accountability (Banks 1999b; PC 1999a). Originally developed to benchmark services provided by GTEs (Scales 1997; PC1998b), the same methodology has been applied to local government services (IC 1997a). The language and logic of benchmarking reflects the philosophical stance of the PC. In the absence of market competition, benchmarking is a second best solution to improve productivity and outcomes for users (SCRCSSP 1995; PC 1999a). Described by the PC as 'yard stick competition', benchmarking results allows "governments to assess agency performance and communities to assess how well governments are meeting their needs at what cost" (SCRCSSP 1998a, iii).

Benchmarking is a substitute for market competition and performance indicators are a substitute for market price signals (PC 1999a).

In summary, the PC in its capacity as Chair and Secretariat for the SCRCSSP, has applied a production process model and performance measurement to the services included in the Review. In theory, agreed objectives and transparent reporting, against a balanced set of performance indicators and suitable measures, overcome the problem of incomplete information in contractual relationships. The general issues around transfer relate to conceptual ambiguity and relationships in the contexts of public services. The issue in this case is the approach to benchmarking results for the services covered by the Review.

Benchmarking results is a production process model that separates outputs and outcomes, and standardises and quantifies quality. As discussed in Chapter 3, this model assumes a clarity that does not exist in practice for professional public services. The next section considers the application of a production process model and performance measurement in the Review. The issues identified in Part I for the cases around transfer are separation, specification and balanced reporting. With the exception of housing, the services covered by The Review have professional attributes. Therefore housing provides a reference point for comparative analysis.

6.4 A Work in Progress

A production process model links the quality of outputs to social policy outcomes, and quality is defined in performance indicators and measures. Two key assumptions of performance measurement are that performance information is objective and that indicators can serve the multiple principles with conflicting interests (Radin 1998).

The questions for this case are:

1. Do the indicators and measures selected take into account the 'professional' and 'public' qualities of the services covered by the Review?
2. How does performance reporting balance the different interests of funders, providers, professionals and clients?

The issues are the definition of quality and overcoming information asymmetry in provider-client relationships. As explained in Chapters 4 and 5, there are problems in transferring performance measures from manufactured goods to professional services.

Production and consumption are not separate for services and this requires a different approach to measuring efficiency and effectiveness. Standardising quality is difficult for professional services. As explained in Chapter 3, there are problems in transferring performance measures from private to public services. Performance is complex and contested for public services with multiple stakeholders and this also requires a different approach to measuring efficiency and effectiveness.

On the question of reporting against a balanced set of indicators, performance measurement attracts criticism on essentially two fronts. One argument is that measurement is not objective and value free, but selective (Zifcak 2001). The counter argument, articulated by the PC, is that quantitative measures are only one input into policy evaluation and are transparent. A different but related criticism is that performance measurement is incomplete because indicators do not capture all the important dimensions. Debates about the merits of particular indicators and measures selected reflect ambiguity in the concept of quality. The problems in this case are the credence attributes of professional services and the nature of process quality for public services.

6.4.1 A production process model and performance measurement

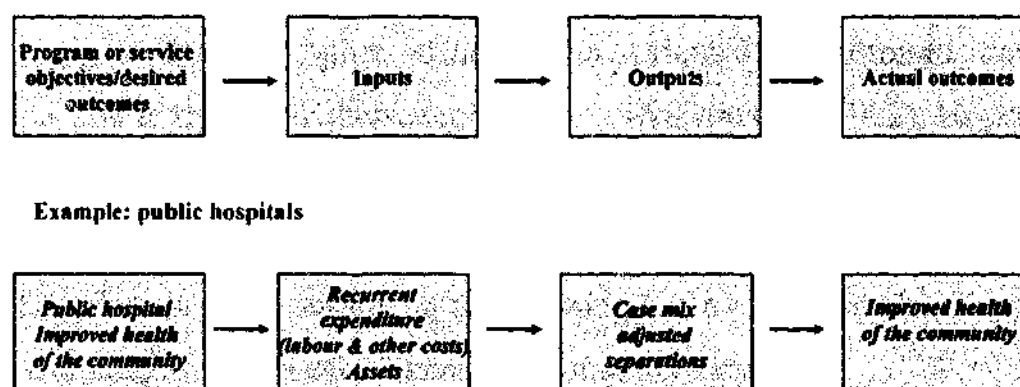
What is described as a 'service process model', shown in Figure 6.3, is the basis for selecting indicators and measures in the Review. In the words of the PC (SCRCSSP 2001a, 10):

Governments have a number of objectives/desired outcomes for the community. To achieve these objectives or desired outcomes, governments fund service providers and products and/or services. Service providers transform these funds/resources (inputs) into services (outputs) and the outputs contribute to the achievement of a government's actual outcomes.

Inputs, outputs and outcomes are the currency of performance measurement in this model (Cater, Klein & Day 1992). Standardised service outputs and quantitative outcome measures enable comparison of the 'cost effectiveness' of service outputs that contribute to policy outcomes (Carter, Klein & Day 1992; Smith 1996; Talbot 1999). As explained in Chapter 4 intangible outcomes, coproduction and provider client encounters in delivery lead to ambiguity in transferring the 'input-output-outcomes' model from manufacturing to services. A production process model that separates inputs/processes and outputs/outcomes ignores coproduction, and the interactive nature

of quality is particularly significant for professional services. Separating and measuring processes (outputs) and outcomes is more difficult as service complexity increases, which is the case for professional services. The problem is standardising quality.

Figure 6.3
A Service Process Model of Performance Measurement



Source: Figure 1.2 SCRCSSP 2000a, 10. This model was adapted by the secretariat from Department of Finance (1994) *Doing Evaluations: A Practical Guide*, AGPS, Canberra

Outputs from manufacturing processes are tangible products that lead to outcomes for consumers and providers. Services are in essence processes that cannot be separated from providers and consumers. Production and consumption of services are not entirely separate in time, and consumers participate to some extent as producers in delivery. This 'coproduction' increases the complexity of service delivery and is the main difference between manufacturing and service processes. Separating outputs and outcomes is difficult because of coproduction. A service process model monitors inputs, outputs and outcomes (results). Service outputs are processes and intangibility creates ambiguity about outputs and quality that explains specification problems. A service process model overcomes the problem by monitoring the value of outcomes.

A production process model that measures efficiency using the ratio of inputs to outputs, assumes standard units of service and constant quality. However, direct provider-consumer encounters increase the variability of service processes (outputs) and outcomes. Consequently services are harder to standardise than manufactured goods and quality is harder to control. A service process model overcomes the problem by monitoring the cost of inputs and the value of outcomes, using sales revenue as a proxy (Smith 1993; Talbot 1999).

With the exception of housing, the services in the Review are 'professional', signalling that delivery is process rather than product-oriented, customised rather than standardised, and high on provider-client contact (Silvestro *et al* 1992). Housing would be classified as a 'mass' service where delivery is product-orientated, standardised and low contact. Performance measurement is more difficult for professional than mass services. Therefore it is not surprising that housing has a more complete framework of indicators and measures than case managed community services.

As discussed in Chapter 4, external accreditation and directly monitoring client views are strategies to overcome provider capture and increase responsiveness to users. However, as explained in Chapter 5, professional services are high on 'credence attributes', and this can lead to asymmetry or divergence between providers and consumers on 'appropriateness' and 'quality' (Walsh 1991). Providers have more information about technical quality, or reliability of service delivery, that clients find difficult to evaluate. Clients rely on quality assurance to evaluate the technical quality of professionals and process quality, or 'customer service', has a greater weight in evaluations of service quality. Appropriateness indicators in the Review generally reflect a purchaser or provider perspective on client needs. Four service frameworks in the Review include accreditation indicators. However, gaps in effectiveness indicators mean that client-user views are generally under-reported.

A production process model focuses on technical outputs at the expense of client outcomes. Service providers get around the problem by monitoring the value of outcomes (Smith 1993; Talbot 1999). Difficulty in specifying indicators and availability of measures for professional services are one explanation of gaps in quality indicators and reporting. Rent assistance is the only framework with nationally comparable

performance reporting on all efficiency and effectiveness indicators. Public housing has nationally comparable performance reporting on all efficiency indicators, and six out of seven effectiveness indicators. Rent assistance and public housing are not professional services. VET and general practice are the only other services with nationally comparable performance reporting on more than 50% of indicators. At the lowest end of reporting is child protection, with no nationally comparable measures. The language of 'social infrastructure services', used by the PC, disguises not only the interpersonal, but also the public nature of these services. Measuring quality is not easy for professional services, but is even more difficult for public services (Walsh 1991; Smith 1993; Carter 1998; Pollitt 2000). 'Public' characteristics add to the ambiguity in a production process model for professional services. The problem is process quality for public services.

Collective choice distinguishes private and public services. A mix of satisfaction for 'client', 'customer' and 'community' as indicators of quality, outputs and outcomes suggests confusion about what is being measured, and why, in the Review. As explained in Chapter 5, giving voice to client views in performance reporting is important for professional public services given their non-traded status and the information asymmetry between providers and clients. However, clients' views are under-reported in the Review because of gaps in indicators and measures.

Public accountability is a fundamental distinction between public and private services. Rights are central to public accountability and performance has compliance dimensions (Barrett 1997a). Performance measurement for public accountability is a voice option based on public rather than private law (Walsh 1995). Ombudsman's offices, administrative appeal and judicial review processes, dating from legislative reform in Australia in the 1970s, provide citizens with avenues of complaint and redress. These agencies already collect this data. Given this history, complaint and redress are a surprising omission in the Review. Only two services, aged and child care, measure complaints. Rent assistance is the only service that measures review of decisions. 'Prison offender complaints' and 'complaints' were deleted as effectiveness indicators for corrective services and police in the 2001 Report, without any comment or explanation for the change.

The benefits of performance monitoring are greater transparency of objectives and accountability for results (Barrett 1997a). Agreed objectives and transparent,

independent reporting by the PC are clearly the strengths of the Review. Effectiveness indicators change the focus of performance reporting from inputs to results, and accountability from managerial to political control. However, gaps in quality and appropriateness indicators, and reporting on client views, limit accountability to clients.

Developing a 'balance suited of efficiency and effectiveness indicators', and comparable measures, is a 'work in progress'. Indicators and measures depend on the purpose of performance measurement (Carter 1998). In the Review this is comparing efficiency and effectiveness of services between governments. Quality is a measure of effectiveness. Technical measurement is one issue. The priority of the Review is filling the gaps in comparable measures to improve reporting. Conceptual ambiguity in quality as an indicator of effectiveness is another issue. Changes to performance indicator frameworks between reports are evidence of this problem.

A production process model and the links between quality and effectiveness are profoundly ambiguous for professional public services. This analysis does however provide some suggestions for improving performance measurement and reporting in the Review. Selection of indicators and measures needs to start with a process model that recognises that the nexus of inputs-outputs-outcomes is different for professional services, and that public services require indicators of efficiency, effectiveness and equity.

6.4.2 Balance in performance reporting

Performance reporting has to balance accountability in two directions: the funder-provider relationship and professional-client relationship. As explained in Chapter 5, information asymmetry in these two relationships explains gaps in performance reporting that limit accountability and have consequences for policy and service delivery.

Performance monitoring is a strategy to reduce the gap between policy objectives and results achieved by different levels of government and contracted service providers. In theory, agreed objectives and transparent reporting against a balanced set of performance indicators overcome the problem of incomplete information in contractual relationships (PUMA 1994; DoF1995; IC 1996; PUMA 1999b). Performance

indicators developed by the Review are intended to fill this gap for social infrastructure services. In practice, suitable effectiveness indicators and outcome measures have inhibited balanced performance reporting for public services (Smith 1993; Carter 1998). Balanced performance reporting is founded on two key assumptions (Radin 1998). The first is that performance information is objective. The second is that indicators can serve the multiple principles with conflicting interests. Funders, providers, professionals and clients for public services are stakeholders with different interests and perceptions of quality and performance.

This case is about steering with performance measures in a federal system. Purchase-provider arrangements create gaps in information for policy evaluation and coordination that performance reporting is intended to close. Transferring a production process model to professional public services leads to two problems (Walsh 1995; Carter 1998; Pollitt 1998 & 2000). First is the conceptual and technical complexity of measuring quality for professional services. The second is transferring performance indicators and measures from private to public services.

The services included in the Review generally operate with fixed budgets and have excess demand. The power of the purse is in the hands of government purchasers and client views are generally under-reported. Customer satisfaction is profoundly ambiguous for public services. Rather than 'customers', public services have multiple stakeholders with divergent and sometimes conflicting interests. Complaints and redress may be better indicators of responsiveness to client needs than 'customer service' indices, and should be a norm rather than the exception. Indicators and associated measures selected for benchmarking have consequences for policy and service delivery, and this case illustrates the limitations of a production process model and performance measurement. The Review shifts the balance in performance reporting to the interests of funders and quantitative measurement.

In summary, the Review has institutionalised the measurement of quality for social infrastructure services. However, performance measurement based on a production process model assumes a clarity that does not exist in practice. This case illustrates two problems. Firstly, outputs are processes and the link to social policy outcomes is complex for professional public services. Secondly, quality is not easily standardised and quantified for professional services. These problems are reflected in the changes

over time in definitions and measures of quality, and the variation between the service frameworks in the Review.

6.5 Conclusions

Performance measurement in the Review is a mechanism for policy coordination in fragmented systems. Selection of indicators has consequences for policy coordination, or 'steering' (Osborne & Gaebler 1992). Quality is always contentious for budget-constrained public services, and The Review relies on quantitative measurement that is difficult for professional public services. Conceptual and technical difficulties in measuring the quality for professional services add to the problem of the contested nature of performance for public services. Gaps in performance reporting in the Review reflect the limits of a production process model for professional public services.

The case study illustrates the problems posed by professional public services for performance measurement. The Review does represent progress in shifting the balance in performance monitoring from efficiency to effectiveness, but it has met predictable hurdles. Costs are easier to quantify than quality. Monitoring outputs and outcomes does not resolve the tension between efficient use of scarce budget resources and responsiveness to individual client needs. The client imperative is weaker than the productivity imperative for public services. The risk of elevating costs over quality is dissatisfied citizens and declining trust in public services.

As already stated supporters of performance monitoring argue that transparent standards, indicators and performance reporting improve efficiency and effectiveness. Critics argue that performance indicators focus on efficiency by measuring the productivity of resources used, rather than effectiveness by measuring outputs and outcomes. The evidence from this case provides support for both camps. The balance of indicators in the frameworks, and of performance measures in reporting, is towards effectiveness, and there is more information about quality. Quantitative measures are very useful in tracking service quality. Policy makers are better informed by knowing whether school 'completion rates' are going up or down, whether 'hospital misadventures' are increasing or decreasing, and whether waiting times for aged care are growing or declining over time. However, the links between programs, client

services and policy outcomes has proved difficult to specify and measure. This is as evident in persistent gaps in the indicator frameworks and reporting.

The way performance is measured affects the activities that are the focus of management and this has implications for policy, not just service delivery (Carter, Klein & Day 1992). The Productivity Commission's claim that the Steering Committee does not consider policy issues (SCRCSSP 1995, 1997b & 1998b) is rather disingenuous. The agreement and specification of policy objectives and performance indicators is part of the policy process, and is inherently political. Indeed, the lack of progress on performance indicators for learning outcomes and quality of health care, probably reflects not only the complexity of these concepts, and consequent specification problems, but also the policy implications of specification. The Working Party on school education has agreed learning outcome objectives, but the appropriate measures are the subject of intense debate among professionals and policy advisers.

Performance measurement limits accountability to dimensions and criteria that can be specified and measured, which may not be the dimensions that have the greatest impact on service delivery or social policy outcomes. Critics have argued that professional judgement is being displaced by 'enumerative assessment as the arbiter of public policy' with the intention of marginalising political debate (Zifcak 1997). The SCRCSSP recognises that quantitative measures, useful for 'yardstick competition', are not sufficient for evaluating policy outcomes. Quality resides in service experiences. The influence of qualitative features may be more significant than quantitative qualities on social policy outcomes. This case study is evidence of a significant shift in performance reporting to quality as a measure of effectiveness however, it appears to reflect increased political rather than client control.

CHAPTER 7
COMMONWEALTH GOVERNMENT SERVICE CHARTERS:
'DOING THINGS NICER'

7.1 Introduction

Reporting on quality standards in Commonwealth Government Service Charters and complaints from 1997 to 2001 are investigated in this second case. All Commonwealth agencies dealing with the public are required to publish a Service Charter that specifies quality standards and a complaint mechanism. In contrast to the Review, quality is defined in service standards for agencies who report internally on compliance. Quality standards are developed in consultation with clients. Agencies are required to monitor and report on performance against standards in their annual report to parliament. A number of agencies have had a hand in developing the implementation guidelines. The 1997 guidelines produced by the Implementation Unit in DIST (DIST 1997b; 1997c; MAB-DIST 1997a & 1997b). Revised guidelines issued in 2000 were developed following the transfer of the Implementation Unit the CTC Branch in by the Finance, in the 1998 administrative restructure (DoFA 2000b).

Government agencies are accountable for client service delivery standards. Performance reporting is internal through agency Annual Reports. Quality is defined in standards as 'customer service' (Ellison 1999, 2). Service Charters are in essence a quality assurance strategy that offers a type of consumer guarantee, and employ the language of 'customer service' (Ellison 1999; DoFA 2000a). The objective is to make service providers more responsive to users by guaranteeing specific standards as a substitute for competition. Complaint procedures are an alternative to performance indicators, and the objective is to reduce dissatisfaction through grievance procedures (OECD 1987). These principles are applied to public agencies with a broad range of functions that cover GBEs, budget funded services, income support and regulatory agencies. In principle, charters increase responsiveness to consumers through consultation, participation in setting standards, feedback from complaints, and redress or remedies for service failure (Pollitt 1988 & 1994; Walsh 1995).

This case examines service standards in agency charters and reporting to the Commonwealth Parliament from 1997 to 2001. Accountability is internal, based on self-reporting by agencies in two whole of government reports (Ellison 1999 & 2000), the

PSC's *State of the Service* (PSC 1999; 2000 & 2001) and agency Annual Reports. Service Charters made it mandatory for agencies to introduce and report on client feedback and complaint systems. There has been no independent evaluation of the scheme.

Section 2 examines the historical context that explains the development of Service Charters until December 2001 when responsibility was completely devolved to agencies. Key features of the approach are setting service standards and the development of complaint handling procedures. Quality is defined in standards developed internally by agencies in consultation with consumers. Official guidelines provide a framework for setting service standards in consultation with clients, developing complaint handling procedures and reporting on compliance. Performance reporting is also internal by agencies in Annual Reports to the Parliament. Two 'whole-of-government' reports on implementation and the PSC's annual *State of the Service Report* have relied on self reporting by agencies.

Section 3 examines the agencies and ideas that have shaped the approach to performance reporting. DIST, Finance, ACCC, and the Ombudsman have all had a hand in shaping policy and the implementation guidelines. In contrast to the continuity of the role of the SCRCSSP in the Review, responsibility for Charters shifted from DIST to Finance in 1998 and was devolved completely to agencies in 2001. A Service Charter is a type of guarantee. Accountability is based on internal performance reporting by agencies. Performance improvement is based on mandatory service standards and complaint mechanisms. Service charters were introduced to improve 'customer service' (PSC 1999). Despite the language of customer service, charters are a voice rather than choice mechanism for responsiveness to clients, and effectiveness depends on access to complaint and redress for service failures.

Section 4 considers the consequences of this approach to performance reporting for responsiveness to clients. Six charters were selected for comparison from the best practice cases in the reports. Five of these charters are from public agencies with a range of responsibilities and services. AMMI, another best practice case, is a private insurance business and provides a reference point for comparative analysis. The issues around transfer, identified in Part I are separation, specification and balanced performance

reporting. The question in this case is whether Service Charters increase client control. In the absence of a choice between service providers, consumers rely on complaint and appeal mechanisms to voice dissatisfaction. 'Customer service' limits the definition of quality to process dimensions, and the imperative for client responsiveness is different for budget-constrained public services (Walsh 1994).

The significance of this case is the systematic implementation of complaint handling procedures in APS agencies. Quality is defined in standards and information. The question is whether service standards include technical, process and public qualities. Performance reporting has to overcome information asymmetry in provider-client relationships, and the question is whether this shifts the balance from the interests of providers to the clients. Process quality standards do change the balance in performance reporting from service providers towards clients, and complaint mechanisms do strengthen accountability for democratic processes. However, Commonwealth Government Service Charters are a weak instrument of accountability, as reporting is internal by agencies and there are no sanctions for non-performance.

The key features of Service Charters are summarised in Table 7.1 over the page. The next section examines the development of Service Charters by Commonwealth Agencies from the official story in reports and implementation guidelines.

7.2 A service standards story

A Charter is a formal commitment by a government agency about its services to the community. Charters are promoted in official policy statements and speeches as a significant initiative to "place customers at the forefront of public service provision" (Kemp 1998c, 9; Moore-Wilton 1999). Chapters 2 to 5 examined the contextual variables that explain the emergence of Charters. Path-dependent change is explained by the devolution of responsibility for management improvement to agencies.

In contrast to performance measurement where Australia is a leader in the NPM policy community, the Commonwealth has been a laggard in the application of charters (PUMA 1996b; Trosa 1996; DoFA 1999). Although responsiveness to the needs of clients has been on the agenda since the Coombs Report, Charters were not introduced

Table 7.1:
Client Services Charters for APS Agencies

| | |
|--|--|
| Time frame | 1997+ |
| Objectives | Accountability to clients and government by monitoring outcomes against policy objectives. Performance improvement by 'yard stick' competition comparing the performance of services between governments. |
| Accountability | Internal reporting on compliance with service standards and complaints. |
| Performance Improvement | Service standards, consumer consultation and complaints. |
| Target audiences | Agency clients |
| Political support | Minister for Customers 1997-1998 Special Minister for State 1998-2001 PSC 2001+ |
| Responsibility for coordination | DIST 1997-July 1998 Finance July 1998-2001 PSMPC/APC 2001+ |
| Responsibility for standards | Service Charters Implementation Unit DIST developed the initial guidelines and implementation timetable. CTC Branch Finance developed the revised guidelines and introduction of Service Charter Awards Scheme. |
| Quality is defined as | Customer service |
| Responsibility for reporting | Agencies |
| Performance information | Quantitative statistics on complaint and qualitative assessment. |
| Performance reporting | Internal by agencies. Two report by the Special Minister of State to parliament on implementation progress (Ellison 1999 & 2000). Agency Annual Reporting Requirements from 1999. State of Service Reports 1998, 1999 & 2000. |
| Cost | Internal to agencies. |
| Contributions | Institutionalising complaint processes. |
| Limitations | Customer service model of process quality. Limited reach of charters to professional-client relationships. |

nationally until 1997. As Table 7.2 over the page indicates, Charters are a late arrival in Australia in comparison to other NPM heartlands, in particular the UK and USA (McGuire 2001).

Table 7.2
Context: International Service Charters Programs

| Date | Government | Program |
|------|------------------------------------|---|
| 1991 | United Kingdom Major Government | <i>Citizen's Charter</i> <i>Charter Mark Award Scheme</i> |
| 1992 | Canada | <i>Service Standards Initiative</i> |
| 1992 | France | <i>Charter des Services Publics (Public Services Charter)</i> |
| 1992 | Spain | <i>The Quality Observatory</i> |
| 1992 | Belgium | <i>Charter de l'utilisateur des Service Publics (Public service Users' Charter)</i> |
| 1993 | USA | <i>Putting Customers First – Standards for the American People</i> |
| 1993 | Portugal | <i>The Quality Charter in Public Services</i> |
| 1993 | New South Wales | <i>Guarantee of Service</i> |
| 1994 | Canada | <i>Quality and Affordable Services for Canadians</i> |
| 1994 | Western Australia | <i>Customer Service Charters</i> |
| 1995 | Queensland | <i>Client Service Standards Policy and Guidelines</i> |
| | South Australia | <i>Citizens Charter</i> |
| | New South Wales | <i>User Service Standards</i> |
| 1996 | AMMI | <i>AMMI Customer Charter</i> |
| 1996 | United Kingdom Blair Government | <i>Service First</i> <i>Revised Charter principles</i> |
| 1997 | Commonwealth Government | <i>Government Service Charters - Putting Service First</i> |
| 1999 | Commonwealth Government | <i>Client Service Charters</i> <i>Revised Charter principles</i> |

Sources: Pollitt 1994; PUMA 1996b; Shand & Arnberg 1996; MAB 1997a, Corbett 1999; DoFA 1999.

Service charters are a quality assurance strategy that offers a type of consumer guarantee. An explicit objective is to improve the responsiveness of service providers to the needs of clients or users. The UK Citizen's Charter pioneered the application of consumerism to public services (Walsh 1994). Despite the title, the Citizen's Charter

conceived of consumers of public services as customers rather than citizens (Bynoe 1996). PUMA has also had a role in disseminating the UK experience in developing the first service charter initiative to the NPM community. The Charters introduced by the Howard Government were influenced by the Citizen's Charter experience.

Charters were part of the shift to contracting in the third phase reform in the APS. The development was evolutionary and one strand in the quality improvement agenda devolved to agencies under the FMIP. In 1994 the idea gained political support from the Shadow Minister for Consumer Affairs, who argued the Charter concept should be used to develop a customer service ethic in the public sector (DoFA 1999). Prior to 1997, charter development by commonwealth agencies was ad hoc, and for the main part a response to criticism in parliamentary and Audit Reports. A *Tax Payers' Charter*, introduced in draft format in 1996, and *Child Support Client's Charter* were developed in response to recommendations by parliament and the Audit Office. The Australian Taxation Office (ATO) and Child Support Agency (CSA), together with the Department of Social Security (DSS), were among the top six agencies attracting complaints to the Ombudsman (CO 1994). The Audit Office conducted Performance Audits of client service in the ATO and DSS, and recommended the development service standards, measuring and reporting on performance to parliament and the public (ANAO 1996a & 1997).

7.2.1 'Putting Service First'

The election of the Howard Government was the trigger for a service wide initiative in the APS. *'Putting Service First'* was the title of the program announced by the Prime Minister in his *More Time for Business* statement in 1997 (Howard 1997). All Commonwealth agencies dealing directly with the public are required to identify their 'customers' and develop a service charter. Agencies are required to publish service standards, establish complaint mechanisms, monitor performance against these standards and report the results in their annual reports to parliament. Service standards are developed internally by agencies in consultation with consumers. Responsibility for Charters was delegated to the Minister for Customs and Consumer Affairs. A special unit was established in the Consumer Affairs Branch of DIST to coordinate implementation across the APS, provide assistance to agencies and to monitor and review implementation progress.

A series of publications provided implementation guidelines for agencies. *Putting Service First – Principles for Developing a Service Charter* set out nine principles for developing, monitoring and reviewing service charters (DIST 1997c):

1. provide clear identification of the agency, its purpose, customers and services;
2. facilitate communication between the agency and its customers;
3. set out customer service standards and customer rights and responsibilities;
4. articulate the agencies policy on obtaining customer feedback and handling enquires and complaints;
5. be developed in consultation with customers, staff and key stakeholders;
6. be designed and promoted in a format and style that meets the needs and expectations of customers;
7. be supported by effective, timely, low cost and accessible mechanisms for resolving customer complaints;
8. commit the agency to monitoring charter compliance and review of charter effectiveness; and,
9. provide public accountability by annually publishing the charter and information on compliance and performance.

Service charters are intended to assist agencies to focus on outputs, define criteria for assessing performance in delivering outputs and benchmarking service quality (MAB 1997). A separate guide set out three specific requirements for agencies in developing a Service Charter (DIST 1997b):

1. a clear statement to the customer of standards of service which can be expected;
2. a clear statement to the customer of who is responsible if service is not provided at the level promised; and,
3. guidance to the customer as to how to access a complaints mechanism if something goes wrong.

Case studies of the *Taxpayers' Charter*, *Child Support Clients' Charter* and *AAMI Customer Charter*, as an example from business, were included in the guide (DIST 1997b). An implementation timetable published in August 1997 identified 148 departments, agencies and GBEs required to develop a charter (DIST 1997c). Policy agencies and policy functions within a portfolio are exempt from developing a service

charter. Non-government agencies contracted to deliver publicly funded services are not required to develop a service charter.

The Service Charters Implementation Unit (Implementation Unit) was very active in providing support for agencies to implement the new program (DIST 1998). The Implementation Unit established a Service Charters Network of contact officers, developed a website and published a quarterly newsletter *Service First*. A training program was provided in conjunction with the PSMPC. At the same time MAB, DIST and the ANOA released the *Quality in Customer Service Package*, considered in Chapter 4, which included a tool kit that drew extensively on customer service techniques and business experience.

In a portfolio restructure following the re-election of the Howard Government in July 1998, responsibility for Charters was separated from Consumers Affairs. The Implementation Unit was transferred to the CTC Branch of Finance. No minister was specifically designated with responsibility for Consumer Affairs in the second Howard ministry, and the program was relocated from DIST to Treasury. As a consequence Service Charters were separated from Consumer Affairs and linked to the contracting agenda. This also delayed the publication of the first whole of government report.

Ministerial responsibility for Service Charters was delegated to the Special Minister of State. Under a new name, *Client Service Charter Principles*, revised guidelines prepared by Finance were introduced in June 2000 (DoFA 2000b). In addition to the nine original principles, agencies were required to consider a range of new Government initiatives in developing or revising their Charters:

1. The needs of clients in rural, remote and regional Australia;
2. The needs of people with disabilities;
3. The needs of people who speak languages other than English;
4. Online service delivery to meet the requirements of the Government's Online strategy;
5. Service delivery under outsourced provider arrangements;
6. The values expressed in the *Australian Public Service Act 1999*; and
7. The principles expressed in the Charter of Public Service in a Culturally Diverse Society.

The Special Minister of State also established the *Service Charter - Awards for Excellence in Customer Service* scheme in 1999. Finance partnered with the Australian Quality Council (AQC) to administer the awards. The AQC developed the selection criteria and chaired the judging panel (PSMPC 2002). Case studies based on the winning applications were promoted as best practice examples. The 1999 and 2000 awards are listed in Table 7.3.

Table 7.3
Service Charter-Awards for Excellence 1999 and 2001

| Award | 1999 | 2000 |
|---|---|--|
| Across all categories Platinum | Child Support Agency Health Insurance Commission | Health Insurance Commission |
| Category 1: Demonstrated excellence in raising customer awareness in department/agency through service charter development and use. | | |
| Gold | Department of Veterans' Affairs | Austrade |
| Silver | Austrade | Australian Federal Police |
| Category 2: Demonstrated excellence in integrating service charters into core service delivery outcomes and organisational culture. | | |
| Gold | Department of Veterans' Affairs | Centrelink |
| Silver | Centrelink | No award |
| Category 3: Demonstrated excellence in service charters driving service delivery to rural, remote and regional Australians. | | |
| Gold | Australian Customs Service | Centrelink Aboriginal Hostels Limited |
| Silver | Aboriginal Hostels Australian War Memorial | No award |
| Category 4: Demonstrated excellence in service charters driving service delivery to clients with additional needs (new in 2000). | | |
| Silver | New category in 2000 | Centrelink |

Source: DoFA 2000b & 2001a.

With the transfer of responsibility for Charters to the PSMPC the Awards were not conducted in 2001. The awards were reactivated by the PSMPC in 2002, but the demise of the AQC necessitated a change of partner for the process. Agency response to the Awards has been less than enthusiastic. Despite Finance's claim that these awards are "highly valued and provide tangible recognition of best practice in service delivery" (DoFA 2002, 39), there were only 14 submissions for the 2001 awards. This did not even meet Finance's low target of 20 applications (DoF 2002). Notwithstanding the limited competition, case studies on award winning agencies are promoted as best practice examples. Award winning agencies, in particular Centrelink, have cited the awards as evidence of improvement in service quality in their Annual Reports.

In July 2001 Finance announced cessation of whole-of-government reporting obligations, "given the high take-up rate by agencies" (DoFA 2002, 39). Responsibility for Charters was devolved to agencies and reporting is now confined to Annual Reports and the PSC's *State of the Service* (PSC 2001). Following changes to the Administrative Arrangements in the APS in November 2001, the Implementation Unit was transferred from Finance to the PSMPC.

7.2.2 Quality standards and information

The implementation timetable identified 148 Charters to be developed at the department and agency level (DIST 1997a). Of the 103 Charters due by June 1998, 88 were completed on time (DIST 1998), and 112 Charters were listed on the website by November 1998. By the end of the implementation period in June 1999, the majority of Departments and agencies had completed or had made significant progress in developing Charters (DoFa 2000b). Delays in Charter development were attributed to the portfolio restructures that followed the 1998 election. The last status report was published on 30 June 2000, and listed 143 Charters (Ellison 2000). A significant number of Service Charters were not available electronically and could only be obtained in hard copy from the agencies, in the unlikely event clients were aware of their existence.

Quality is defined in service standards and given the range of agencies and services, there is considerable variability. Not surprisingly service standards in Charters for larger portfolios are less specific and relate more to process quality. DEETYA developed a code of conduct rather than a Charter. In contrast, agency and program Charters tend to

have more explicit standards. Finance had been critical of earlier charter initiatives, introduced by Government in NSW and WA for concentrating on service delivery and not program outcomes (DOF 1995). However there was no attempt to broaden the focus of service standards in the revised guidelines prepared under the Finance watch.

The scope of services covered by a Service Charter also varies between portfolios and agencies. For example the Department of Veteran's Affairs (DVA) and the ATO both developed a single Charter encompassing all services. In contrast the Australian Quarantine and Inspection Service (AQIS) developed both a general *AQIS Service Charter*, and 19 individual program Charters related to technical quarantine standards.

A variety of nomenclatures have been adopted ranging from the general 'Service Charter' and 'Client Service Charter', to the specific *The Taxpayers' Charter*. Only twelve agencies opted for 'customer' in the title. Predictably this included Australia Post and Telstra as the GBEs. More curious is the *Charter for Customers of the Human Rights and Equal Opportunity Commission's Complaints*. Perhaps the grandest statement is Centrelink's *Customer Charter – What We Can Do To Help Each Other*.

Six Service Charters for comparison were selected from the best case, and these are listed in Table 7.4 on the next page. These agencies cover a range of responsibilities, and illustrations in the variation in interpretation of the guidelines in practice.

AAMI Customer Charter

The insurance company AAMI was the first private sector enterprise in Australia to introduce a Service Charter that specified standards backed by a public accountability framework. AAMI's Unique Customer Service Charter, developed in consultation with customers, consumer advocates and the Citizens' Charter Office in the UK, was introduced on 1 July 1996 and was revised in 1997 and 1998. AAMI's Performance against the Service Charter is independently audited by KPMG and the results are published (AAMI 2001). The service guarantee is based on four core obligations: to consult, to inform and be accessible, to be accountable and to provide redress for service failures (AAMI 1998). The Customer Charter sets out 16 service standards and offers a \$25 penalty for any breach. In recognition of the Charter development, AAMI won the Victorian Office of Fair Trading 1996 *Fair Trader of the Year Award*. AAMI provided

Table 7.4
Commonwealth Government Service Charters

| Agency | Role | Charter |
|---|---|---|
| AAMI Private business | Private insurance service provider | <i>Customer Charter</i> Introduced 1996 |
| Australia Post Portfolio: Communications, Information Technology and Arts | GBE Postal services <i>Australian Postal Corporation Act 1989</i> | <i>Service Charter Putting Customers First</i> Introduced 1998 for the CSO obligation for the universal letter service. |
| Australian Taxation Office (ATO) Portfolio: Treasury | Regulatory agency | <i>Tax Payers' Charter</i> Introduced in 1996 |
| Child Support Agency (CSA) Portfolio: Family and Community Services | Regulatory agency | <i>Child Support Clients' Charter</i> Introduced 1996 |
| Centrelink Portfolio: Family and Community Services | Purchaser/provider arrangements with agencies to delivery income support and related services. | <i>Customer Service Charter</i> Introduced in 1997 and reviewed annually. |
| Aged Care Standards Agency (ACSA) Portfolio: Health and Aged Care | Accreditation agency for Commonwealth funded aged care providers <i>Aged Care Act 1997</i> | <i>Service Charter for the Aged care Standards Accreditation Agency</i> <i>Charter of Residents' Rights and Responsibilities</i> |
| Veterans Affairs Defence Portfolio | Service delivery agency Contracts to provide services to a designated group - war veterans and their families. | <i>Service Charter</i> |

Note: The portfolio responsibilities are as at July 2000.

support to the DIST in establishing Government Service Charters and features as a best practice case study in *The Better Practice Guide* (DIST 1997b). AAMI adopted standards on complaint handling from standards developed for public agencies. Interestingly, AAMI stands out as an exception in being the only private sector

organisation with a substantive service guarantee. Indeed, AAMI uses this uniqueness to differentiate its service in the market place. The service quality imperative is market competition.

Australia Post Service Guarantee

Australia Post is a GBE required by the Community Service Obligations (CSO), specified in legislation, to provide a universal letter service that is equally accessible to all Australians. In addition to this, Australia Post offers a broad range of services that compete in contestable markets. The Service Guarantee, introduced in July 1998, relates to the universal letter service. Quality is defined in technical and process standards. Technical quality standards specify posting times and delivery frequency. Process quality standards specify lodgement points, stamp price, commitment to a retail network and complaint handling procedures. There is no liability for loss or damage but Australia Post does offer compensation in some circumstances.

As a GBE Australia Post is accountable under the *CMA Act 1997*, and is not required to and did not report separately on compliance with the Service Guarantee. A separate guarantee is offered for the contestable Express Post overnight delivery service. In contrast to the CSO, this guarantee does offer compensation if delivery standards are not met. Australia Post's Service Guarantee has featured as a best practice case (DoFA 2001b), and the Ombudsman has reported a decrease in complaints since its introduction.

Postal services were included in the economic infrastructure services monitored by the SCNPMGTEs, discussed in Chapter 5, and are classified as a 'mass' service in management. In contrast to social infrastructure or professional services, a mass service is one where delivery is product-orientated, standardised and low contact. Australia Post's Service Guarantee illustrates that specifying technical quality and measuring service quality is easier for mass services than professional services.

Tax Payers' Charter

Introduced on 4 July 1997, the origin of this Charter was a Public Accounts Committee enquiry into the ATO's administration of the federal tax system. A charter of tax payers' rights was a key recommendation of the Committee. A Performance Audit in 1997 also

influenced the development of this Service Charter. Described as a contract between the ATO and taxpayers, the basic principles are openness, transparency and accountability (DIST 1997c). A booklet of 20 pages supported by 15 explanatory booklets, details the rights and responsibilities of taxpayers, service standards and a new internal complaints mechanism. The Service Charter is not legally enforceable in its own right. The Ombudsman reported a 16% increase in complaints in 1997-98 compared to 1996-97. The Ombudsman investigated the effectiveness of the Problem Resolution Service, established in July 1997 as part of the charter implementation, and reported that it appeared to be an effective avenue for resolving taxpayers' problems. The language of this Service Charter is legal rights, obligations and fair treatment. Taxpayers are empowered by rights appeal enshrined in legislation rather than the Service Charter.

Child Support Clients' Charter

Although part of the ATO at the time, a separate Child Support Clients' Charter was developed and introduced from 1 July 1996. The CSA administers complex legislation that regulates child support payments. Two of its client groups, parent payees and payers, are often in conflict so there is considerable scope for dissatisfaction and complaint. This Service Charter was also developed as a result of a parliamentary inquiry and Performance Audit (ANAO 1996a), and has a similar stance to the Tax Payers' Charter. Quality is defined by process standards. The CSA Service Charter recognises parents, children, employers, lawyers and community as different client groups. The Ombudsman reported a 19% decrease in complaints in 1997-98 compared to 1996-97. The CSA introduced its own complaints handling service in July 1996. The ATO and CSA are regulatory agencies whose clients are compelled by legislative authority to use these services. The CSA's Complaints Service received a Platinum Award across all categories in the first Service Charter Awards in 1999 (Table 7.2), and has featured in the *Service Charter Awards Case Studies* (DoFA 2000b). The strengths identified in the citation included wide spread awareness of the Service Charter among staff and stakeholders.

Centrelink Customer Service Charter

The one stop shop concept, first trialed under the auspices of the RCAGA, was finally implemented on a broad scale with the creation of Centrelink on 1 July 1997. Centrelink was established to integrate customer access to services and create a

'customer-driven culture', and customer service has been explicit objective from its inception (Zannetti 1998; Kemp 1998a; Centrelink 2001). Centrelink is a statutory authority with its own Board and enters into purchaser-provider contracts with government agencies to deliver income support payments and related advisory services to eligible recipients. Centrelink is also the debt recovery agency for a number of Commonwealth agencies. The Board of Centrelink has a Quality Committee with responsibility for quality assurance, customer service and performance measurement (Centrelink 2001). Curiously, given the nature of the relationships, Centrelink distinguishes agencies it contracts with as clients and the recipients of income support and related services as customers. The Service Charter sets out rights and responsibilities for these 'customers' and sets standards for "service that is friendly, helpful, respectful and sensitive to their individual needs" (Centrelink 2001). The Customer Relations Unit is an internal customer feedback mechanism to resolve customer complaints. The Ombudsman and ACOSS, together with press reports, indicates considerable delays in the internal review process (CO 1998). Centrelink benchmarks customer service every six months, conducts extensive research, and reviews its Service Charter annually. Centrelink received a Gold Award in the first Service Charter Awards in 1999 (see Table 7.2), and has featured in the *Service Charter Awards Case Studies*. The strengths identified in the citation included wide spread deployment of the Service Charter among staff and stakeholders.

Centrelink has also received a range of awards for quality and customer service, including three of the seven Awards for Excellence in Service Charters in 2000 (DoFA 2001b; Centrelink 2001). Notwithstanding this, the Commonwealth Ombudsman still receives more complaints from Centrelink 'customers' than any other agency. The 'hotel aspects' of process quality may be award winning, but the reliability of services has attracted criticism from the Audit Office (ANAO 1999a). A performance audit of the Special Benefit paid under the Social Security Act, found that 41.7% of claims were incorrectly assessed by Centrelink. As this case illustrates there is more to service quality than customer service. In the case of income support, as ACOSS argues, there is tension between customer service and a social security system predicated on rights and entitlements under legislation (Raper 1999).

Aged Care Standards Agency

Established by the Commonwealth Government under the *Aged Care Act 1997*, the Aged Care Standards Agency (ACSA) is responsible for managing the residential aged care accreditation process. The purpose of Commonwealth Government accreditation is to (ACSA 2003):

... promote high quality care and assist industry to improve service quality by identifying best practice, and providing information, education and training; to assess and strategically manage services working towards accreditation and to liaise with the Department of Health and Aging about services that do not comply with the relevant standards.

Accreditation for aged care providers receiving Commonwealth funding was not mandatory until 1 January 2001. The Agency is an independent company by limited guarantee that is accountable under the *CAA Act 1997*. The Agency works with Department of Health and Aging to promote 'quality of aged care' and is responsible for the accreditation of aged care providers. The agency deals directly with service providers rather than professionals or clients. The Agency has a Service Charter but this is only available in hard copy and no comment is provided in the agency's annual reports (ACSA 2000 & 2001). However the *Aged Care Act 1997* requires all residential aged care services to offer all residents a resident agreement and establish a complaints handling scheme. Residents can also access the Aged Care Complaint Resolution Scheme and National Commissioner for Complaints. A Charter of Residents' Rights and Responsibilities is part of the accreditation standards but there is no direct reporting on either compliance or complaints.

As this example illustrates, Commonwealth Government Service Charters have limited reach to the provider-professional-client interface. Funding tied to accreditation that includes a complaint mechanism in theory gives clients greater power. Clients are the frail and elderly who require care and support with daily needs, and may be unable to speak for themselves. Clients of government-funded nursing homes do not have access to administrative law remedies (Keating & Weller 2001), however under accreditation these agencies have to establish internal complaint handling mechanisms. Accreditation has institutionalised complaint, if not redress, for service failures. Giving clients a voice

is important for public service, given their non-traded status and information asymmetry between providers and clients.

Department of Veterans Affairs Service Charter

Located in the Defence portfolio but with a designated Minister, the DVA is responsible for income support and the provision of health and welfare services to members of the Defence Force, veterans and their families. Entitlements to income support and access to services are specified in the Veterans Affairs Act. These services are provided directly by the department, through contracts and partnerships with autonomous agencies and ex-service associations. The DVA Charter was first published in 1997 and revised in May 2000.

This Charter includes a general promise "to provide or arrange appropriate and timely service" and, "to consult with ex- service organisations and the veteran community when reviewing the rules and regulations for veteran entitlements" (DVA 2000, 3). The Charter essentially specifies process quality standards. Technical quality standards specify time periods for assessment of claims. Rights to review of compensation decisions are specified in the Charter.

DVA was awarded Gold Awards in two categories in the first Service Charter Awards in 1999, and has featured in the *Service Charter Awards Case Studies*. The strengths identified in the best practice case study included extensive international benchmarking, staff consultation and changes to business practices as a result of implementing the Service Charter (PSMPC 2002). The Department conducted a Veterans' Satisfaction Survey in 1998 and 2000 to monitor performance against the Charter, and in 2000 introduced an automated feedback system and reported complaint (DVA 2001). There was no analysis of complaints in the Annual Report, the Department simply reported a very low level of dissatisfaction.

Whilst selective these Charters are indicative of better practice. In general Charters are codes of conduct rather than service guarantees. Quality is defined by standards that relate to process rather than technical quality. To the extent that agencies contracts out service delivery this limits the reach of Charters to professional-client relationships.

7.2.3 Performance reporting

In contrast to the volume and quantitative information provided by the SCRCSSP in the previous case, reporting on Service Charter compliance is essentially internal, qualitative and limited. There have only been two whole of government reports (Ellison 1999 & 2000) and these relied on self reporting by agencies. The first whole of government report on progress was deferred initially because of the October 1998 Federal Election, and then by the transfer from DIST to Finance. Finally presented to parliament in October 1999, this was a concise report of 26 pages on implementation from July 1997 to June 1999 (Ellison 1999). This brief whole of government report provided a statistical summary and case studies, but did foreshadow a review of the principles.

Compliance with the nine principles was variable. Curiously, given the explicit guidelines, only 98% of the 125 Charters published by June 1999 included standards for service delivery. More significantly, only 82% of charter agencies had systems to record customer feedback, and only 89% had customer complaints systems operating, despite these being mandatory requirements. Monitoring and review recorded the lowest level of compliance with only 77% of charter agencies reporting complaints data. The report concluded (Ellison 1999, 6):

The challenge for the Commonwealth Government and agencies is to maintain the enthusiasm generated over the last two years and to make sure charters continue to drive change to meet the needs of the public.

A second report on the period from July 1999 to June 2000 was presented to Parliament in November 2000 (Ellison 2000). Slightly longer at 50 pages, this followed the introduction of the awards and the revised principles, and these were reported in some detail. Again the evaluation was based on a self-reporting survey of agencies' compliance with the nine charter principles. On this basis, the report demonstrated improved compliance by agencies including complaint handling. Two notable exceptions to improvement were in the areas of monitoring and accountability, however the report offered no explanation of non-compliance. Short vignette style examples were included for most principles, and the report concluded (Ellison 2000, 10):

This report demonstrates that Departments and agencies are striving to do their best, putting in place mechanisms to handle complaints and committing to the monitoring and review of their Charters.

This was the last whole-of-government report on compliance with Charter principles. Agencies are required to conduct an external performance audit against Charter objectives every three years. However, the first audits were not due until after this report was tabled in 2000. The PSC annual *State of the Service* report has included a brief comment on Charters under the general heading 'Customer Service' (PSC 1998 & 1999). Based on information provided by agencies, the PSC reported reductions in process and waiting times and an increased willingness to apologise personally and publicly for mistakes (PSC 1999).

As explained in Chapter 3, the Auditor-General defines performance information as "evidence about performance that is collected and used systematically to enable judgements" (Barrett 1997a, 10). The evidence on Charters is self-reporting on compliance, with service standards that concentrate on process quality rather than reliability as defined in Chapter 4. According to the Guidelines, agencies with a Charter must report performance against standards, complaint data, trend analysis and response to complaints. In practice, reporting has been limited to comments on compliance rather than any analysis of complaints.

Assessing the impact of Commonwealth Government Service Charters is difficult as there has been no external evaluation of the implementation, and most evidence is based on self reporting by agencies. As discussed earlier, the brief whole of government reports provided illustrative case studies of implementation rather than an evaluation of the impact of Service Charters. The PSC (1998) has recorded benefits reported by agencies, including:

- service delivery improvements resulting from customer feedback;
- improvement to meet Service Charter standards;
- new and improved complaints handling systems;
- reductions in process and waiting times: and,
- increased willingness to apologise personally and publicly for mistakes.

From a more independent stance, the Commonwealth Ombudsman has reported a clear trend towards best complaints handling by public service agencies, including significant improvements in Centrelink, ATO and CSA (PSC 2000), attributed to Service Charters.

The Audit Office also reported improvement in complaint handling, but noted less improvement in the willingness of public servants to adequately explain the reasons for decisions. The accuracy and reasons for a decision are the technical quality, and as discussed in Chapter 4, this is fundamental to service quality.

Path dependency of change explains the introduction of Service Charters in the APS. Service Charters are in essence a quality assurance strategy that offers a type of consumer guarantee, using the language of customer service. The official story is that Service Charters are a quality assurance strategy and, as a substitute for competition, guaranteeing specific service standards and complaint handling procedures will make service providers more responsive to the needs of clients as customers or consumers. Three questions posed for the case were:

1. Who is accountable for quality?
2. How is quality defined?
3. Does reporting on quality balance the interests of funders, providers, professionals and clients?

Agencies dealing directly with the public are accountable for 'customer service', but this is through internal reporting. Quality is defined in standards. Process quality is defined as clients or customer service depending on the agency. Standards have no legislative authority and do not generally specify technical quality. Redress for service failure is usually limited to complaint processes rather than remedies and compensation. Nevertheless, Service Charters have institutionalised complaint procedures and provide more information about process quality. Some agencies have consulted widely in developing service standards and taken performance reporting seriously. However, internal reporting is a weak imperative for client responsiveness. The next section considers the agencies and ideas that have shaped implementation guidelines.

7.3 Service guarantees and complaints

Quality linked to customer service has been high on the agenda of governments in the NPM policy community (Halachmi 1997). As discussed in Chapter 4, the Citizen's Charter introduced by the Major Government in the United Kingdom started an international trend, with adaptations in the USA, Canada, France, Belgium and Italy (PUMA 1996b; DoFA 1999; Osborne & Plastrik 1997). As suggested in Chapter 4, the

devolution story explains Australia's status as a laggard in NPM heartlands in implementing Service Charters, service quality standards and customer surveys.

7.3.1 DIST, Finance and the PSMPC

The idea of Service Charters has many supporters in the consumer affairs lobby. The TPC and its successor, the ACCC, have been active champions, arguing that NCP should include a charter of consumer rights (Macleay 1995). Support for the development of Service Charters also came from the Ombudsman. However support from the central agencies instrumental in shaping public management reform in the APS has been mixed. Finance and the Audit Office, whilst supporting the idea of Service Charters to monitor and improve standards of service, have argued there are limitations when standards apply to service delivery rather than outcomes (Trosa 1997; DoF 1995; SFPARC 1995). As explained in Chapter 4, MAC only has an advisory role and the PSMPC is an internal auditor relying on agency evaluations and reporting.

The relegation of the status of Service Charters appears to reflect the priority accorded to Consumer Affairs generally by the Howard Government. Prior to 1996, Consumer Affairs had the status and resources of a Bureau in the Attorney General's Department. In a restructure following the 1996 election of the Howard Government, Consumer Affairs was relegated to a Division in DIST, and the government ceased funding the consumer movement (Asher 1998). Nevertheless, the Consumer Affairs Division in DIST continued to work closely with the TPC/ACCC on consumer protection policy, and Service Charters were aligned with this policy. As discussed above, in the 1998 portfolio restructure, the Implementation Unit was separated from Consumer Affairs which was transferred to the Treasury portfolio. The program objective for Consumer Affairs are described by Treasury as "well-functioning markets that overcome information asymmetry" (Treasury 2000), reflecting a market-based rather than law-based approach to regulation (Nethercote 1999).

At the level of international lesson drawing there is some evidence of policy transfer (McGuire 2001), and similar managerial values underpin the charter frameworks in NPM heartlands (Walsh 1994; Pollitt 1995; Kettl 1997). Service Charters internationally draw lessons from a similar toolkit influenced by business techniques. The Citizen's Charter and the private insurance company AAMI's Customer Charter

both featured as case studies in the guidelines. The Society of Consumer Affairs Professionals (SOCAP) and Technical Assistance Research Program (TARP), a private consultancy headquartered in the US, also had some influence in the development of the guidelines and training packages. The framework in the Toolkit identifies five best practice principles for quality customer service, and the further reading suggested in the tool kit directs agencies to private sector research (MAB-DIST 1997b, 85-88).

7.3.2 Voice: standards, complaint and redress for service failure

The customer metaphor brought customer service techniques from the private sector to public services (Osborne & Gaebler 1992; DoF 1995). A charter is a performance monitoring and accountability tool that focuses on customer service outcomes (DoFA 2000a). Finance, not surprisingly, linked Service Charters to CTC as a performance improvement tool (DoFA 2000a). The language of 'customer service' has been invoked to induce cultural change in agencies dealing with the public. The assumption is that reporting performance against client service standards and feedback from complaints will lead to improvements in service delivery. The logic of Service Charters principles is that mandatory standards, a complaint mechanism and reporting will enhance consumer sovereignty. Internal monitoring and annual reporting by agencies of performance against standards is the accountability mechanism.

Service guarantees are a strategy to prevent customer defections by monitoring the incidence of defective service and correcting delivery failures (Hart 1988 & 1993). A service guarantee is an extension of the product warranty concept to services (Rust, Zahorik & Kenninham 1996). In business, customer-focused quality standards become performance targets that have a positive effect on bottom line profitability through the service profit chain examined in Chapter 4.

Service Charters are intended to guarantee specific standards for service delivery for customers and stakeholders, and provide a substitute for competition and a benchmark for measuring service quality (DIST 1997a). This parallels the second best to market choice view of performance indicators in the Review. In practice, Service Charters are a code of conduct rather than a guarantee. Service Charters do not confer legally enforceable rights on customers. Any such rights, for example taxation and income support, are set out in legislation. There are generally no sanctions for non-performance.

Complaint procedures are an alternative to performance indicators and the objective is to reduce dissatisfaction through grievance procedures (OECD 1987). Service Charters made reporting on client feedback and complaint systems mandatory. However, as the Audit Office observed from practice (1996, 62):

... the complaints handling systems needs to be adequately managed and resourced, and should be visible to clients.

Whilst the Ombudsman has reported an increased willingness of clients to complain and an improvement in agencies' handling of complaint, there has been no independent analysis of clients' awareness of complaint mechanisms. Centrelink, one of the few agencies to report on this, acknowledged that less than 12% of clients were aware of its Customer Service Charter (Verspaandonk 2001).

The language of customer service in charters implies that the market logic of consumer sovereignty to public services (Pollitt 1994, Walsh 1994). As explained in Chapter 5, there are essentially two approaches to increasing the sovereign power of consumers over public services (Myers & Lacey 1996). The first is to make providers more responsive to consumers through consultation, and more accountable to government and the community through performance monitoring. Consumer empowerment depends on the effectiveness of voice mechanisms. The second approach is providing consumers with choice based on competition between service providers. Charters empower consumers of public services by means of voice mechanisms, and the effectiveness depends on the transparency and openness of performance reporting, including user surveys and complaint mechanisms.

In summary, mandatory standards and complaint mechanisms in Service Charters are a substitute for competition and consumer choice. In theory, Service Charters increase client control by consultation in setting service standards and the systematic implementation of complaint mechanisms. The general issues around transfer relate to conceptual ambiguity and relationships in the contexts of public services. The issue in this case is whether standards and complaints close the gap in performance reporting between providers to clients. Customer service is a market model that applied a consumer perspective to process quality. As explained in Chapter 5, this does not take

into account the nature of process quality for public services. The next section considers the application of a customer service model of client responsiveness to public services. The issues identified in Part I for the cases around transfer are separation, specification and balanced reporting. AAMI, as a best practice charter for a private service, provides a reference point for comparative analysis.

7.4 From pillar to outpost

Charters are identified by MAB (1997) as a key element in the performance framework along with the Accrual-Based Outcomes and Outputs Framework and the Performance Improvement Cycle. In theory, quality standards improve responsiveness to clients by introducing a new outward dimension to public accountability. The ACCC identified the 'essential elements' of an effective service charter (Asher 1998, 189):

a set of well-defined, measurable and achievable performance benchmarks aimed at best practice and service delivery, visibility of service standards and penalties for non-compliance, employee involvement, user consultation, knowledge of where to receive more detailed information about the product or service, reporting on whether standards are met, and, where standards are not met, customers are entitled to pre-determined compensation.

According to Finance (DoFA 1999, 1):

The Service Charter process in Australia, however, marks a new level of sophistication in the development of government customer service standards. While the administrations of the UK and the USA gave the initial impetus to the idea that government bodies should have a customer focus, the Australian Government has given the process new vigour. For the first time, these Service Charters are to apply, from the outset, to all Commonwealth Government departments and agencies, including regulatory bodies, whenever they provide a service to the public. And this includes services contracted on behalf of the Government and delivered by the private sector.

In practice, there is a substantial gap between the rhetoric and reality, even in the official story. Service Charters have not been applied to agencies outside the APS, contracted to deliver public services, and this limits accountability to clients, particularly for professional public services delivered by autonomous agencies. Within the APS Service Charters have had a low profile in performance reporting and there appears to be a low

level of awareness by clients. Relocating coordination to the PSMPC (now the APSC) and devolving responsibility for self reporting to agencies is unlikely to change this.

Charters and Customer service is a business model that focuses on process quality. Quality is defined by customer perceptions of the way services are delivered. The quality imperative in a customer service model is choice and market competition. The quality imperative for public services is voice and political processes. As discussed earlier, self reporting by agencies and devolution of responsibility weakens the imperative through performance reporting for responsiveness to clients. The questions for this case are:

1. Do process quality standards take into account the 'public' service attributes?
2. How does performance reporting balance the interests of providers and clients?

The issues are the definition of quality and overcoming information asymmetry in provider-client relationships. As discussed in Chapter 5 there are problems in adopting a customer metaphor for provider-client relationships for public services generally. Clients are consumers, and citizens are more than customers. Responsiveness to clients as consumers and citizens are different dimensions of process quality for public services. Clients as citizens have rights to procedural fairness and redress. Complaints and dispute resolution are indicators of procedural fairness and therefore measures of process quality for public services. In practice surveys of client perceptions and customer service standards taken from business limit accountability to process dimensions or the 'hotel aspects', but there is more to service quality.

As explained in Chapter 4, quality has technical and process dimensions for services. Technical qualities and the equity dimension of process qualities have to be taken into account in performance reporting to increase client control for public services. Contrasting Australia Post's Service Guarantee, that specifies technical quality standards, with Centrelink's Customer Service Charter illustrates the point. Income support payments paid by Centrelink and postal services are both mass service. Australia Post's Service Guarantee specifies technical qualities, but Centrelink's Customer Service Charter, as the name suggests, is limited to process qualities. Excluding reliability from the Centrelink's Service Charter limits 'customer' control.

7.4.1 A customer service model and client responsiveness

A customer metaphor confuses thinking about provider-client relationships and the nature of process quality for public services. Responsiveness in the context of public services means transparent accountability and meeting client needs within a public policy framework. A public policy prism elevates social values, regulation and voice. Strategic relationships are political rather than economic or managerial. Redefining clients as customers is neither necessary nor sufficient to improve the responsiveness of service delivery to the needs of the clients of public services.

A related problem is that customer satisfaction measures taken from business do not adequately capture the equity dimensions that are fundamental to public services. Complaint and redress are better indicators of client outcomes than customer satisfaction surveys. Citizens have rights to complain and seek redress, and a voice in democratic processes.

Citizen voice rather than consumer choice is the imperative for responsiveness to the needs of clients in delivering budget-constrained public services. A charter as a voice rather than choice option is based on public rather than private contract law (Walsh 1995). Transparent eligibility and access decisions are indicators of process quality, and complaints and redress are measures for public services (Pollitt 1988; Walsh 1991; IC 1996). Ombudsman's offices, administrative appeal and judicial review processes, dating from legislative reform in Australia in the 1970s, provide citizens with avenues of complaint, and redress and report on complaints resolution.

Not surprisingly there is considerable variation between agencies. This is in part explained by the devolution of responsibility for improvement to agencies, and internal reporting. However, the variation also reflects the nature and range of services provided by APS agencies. The nature of Commonwealth programs is that agencies are responsible for funding, but not generally for providing services of the type covered by the Review, so Service Charters have limited reach to these services. Nevertheless, services provided by APS agencies share the 'public' attributes. Provider-client relationships, particularly with regulatory agencies such as the ATO and CSA, also have professional attributes derived from technical expertise in assessment of eligibility and specialist knowledge of entitlements.

Devolution of responsibility performance reporting to agencies weakens the imperative for responsiveness to clients. The six Service Charters selected from the best practice cases illustrate the limits of a customer service model for budget-constrained public services. Market competition for AAMI and Australia Post provide the imperative for service quality and sanctions through lost revenue for poor performance. Whilst Service Charters have institutionalised complaint procedures for budget constrained services, there are no apparent sanctions for non-compliance and few, if any, consequences for poor performance. Any redress is linked to legislation and administrative law provisions.

As this case illustrates, defining clients as consumers limits responsiveness to customer service. This is not to suggest that there is no scope for improvement on this score. However, the argument is whether there more to client responsiveness than customer service. Centrelink can demonstrate a high level of customer service but its technical quality has attracted criticism (ANAO 1999a). As the services management research discussed in Chapter 4 recognises, clients want reliable services. In the case of Centrelink this means accurate assessments and income payments, not just courteous service.

Service Charters are intended to change the culture of public service delivery to focus on the needs of the users who are identified as 'clients' or 'customers'. Critics who dismiss public service charters as a poor attempt at public relations ignore widespread concern at the lack of responsiveness of providers of public services to the individual needs of clients. Service Charters developed by the ATO, CSA, Centrelink and DVA have been based on extensive client involvement. A more substantive criticism is that Service Charters promote the merits of consumerism at the expense of citizenship (Bynoe 1996). The problem is that quality standards and customer survey instruments taken from business do not take into account public qualities.

7.4.2 Balance in performance reporting

Quality is inherently political for public services. Complex public accountability relationships for public services exacerbate information asymmetry. Client perceptions of quality affect their assessment of service delivery and confidence in service

providers. Just as significantly, client perceptions of quality affect their assessment of the publicly funded programs and confidence in government.

On the question of closing the gap between providers and clients in performance reporting the evidence is mixed. The Commonwealth Ombudsman strongly supported the introduction of Service Charters, and has reported a modest decline in the overall number of complaints (CO 1997a). This was contrasted to a steady growth over a number of years, and attributed to improvements in standards of service and resolution of complaints following the introduction of Service Charters. Centrelink with 53% of all complaints, CSA with 12%) and the ATO with 11%, are the agencies that attract the most complaints, and each has developed a Service Charter. The Audit Office and Human Rights and Equal Opportunity Commission have also reported improvements in service delivery and complaints handling, but public servants are still often reluctant to adequately explain the reasons for decisions (PCS 1998).

The emphasis on developing complaint mechanisms is a distinctive feature of the Commonwealth Government Service Charters, and the Commonwealth Ombudsman's *Good Practice Guide on Complaints* (CO 1997b) and the *Australian Complaint Handling Standard* (DoFA 1998d) have facilitated implementation. Service Charters have institutionalised complaint procedures in the Commonwealth accountability framework, and this experience has been drawn on internationally (DIST 1997b; DoFA 1999). The Australian experience reflects the long tradition of administrative law mechanisms and the influence of the Commonwealth Ombudsman considered in Chapters 2 and 4. Nonetheless, a number of agencies still did not have operating complaints systems by 2000, and the lowest level of Service Charter compliance was on reporting complaint statistics (Ellison 1999 & 2000).

One question is whether Service Charters are an improvement on what previously existed. Another is whether the complaint procedures increase client control. This is difficult to assess as the only evaluation is self reporting by agencies. There is some evidence of an increased voice for clients as consumers through satisfaction surveys and feedback from complaints. However, there is no evidence of high public awareness of Service Charters. Responsiveness to clients as consumers requires more than reporting satisfaction with services delivered. Best practice cases suggest there is some evidence

of increased client control through consultation and participation in setting standards and indicators.

In summary, Service Charters have introduced direct accountability to clients and have institutionalised complaint processes for APS agencies. Transfer is of particular interest in this case, as transfer on complaint handling has been from public to private services. Best practice on equity is to be found in public accountability mechanisms developed in the public sector and agencies. However, Commonwealth Government Service Charters are a weak instrument of accountability, given internal reporting and limited redress for clients experiencing service failures. This case illustrates two problems. Firstly, ambiguity in the language of customers confuses the nature of provider-client relationships. Secondly, customer service limits the definition of process quality for public services. Clients of public services are consumers and citizens

7.5 Conclusion

Strategies to make public service providers more responsive to the needs of clients rely on one of two mechanisms, choice between providers, or providing clients with a stronger voice (Meyers & Lacey 1996). Service Charters are a voice mechanism, a substitute for choice. In theory Service Charters increase consumer and citizen voice by complaints (Pollitt 1988). In practice the effectiveness of Service Charters as a voice mechanism depends on client participation and transparent performance reporting. The assumption is that consultation with clients in setting standards and reporting will lead to improvements in service delivery. The logic is that mandatory service standards, complaint mechanisms and reporting will enhance consumer sovereignty. Although the effectiveness varies between agencies, gaps in reporting and inadequate sanctions for non-performance generally limit the impact of complaint mechanisms. Service Charters do not confer legally enforceable rights on customers. Any such rights are set out in legislation, for example the Taxation legislation. Service Charters demonstrate the limits of business frameworks that do not take into account public qualities (Walsh 1991; 1994 & 1995).

Performance reporting is the basis of accountability and quality improvement, and Service Charters have provided more information about the quality of public services. However, the six Service Charters selected for comparison illustrate how different

definitions of quality change performance reporting. Service standards shift the balance in performance reporting towards 'customer service' for clients. However Service Charters have limited reach to professional-client relationships. Commonwealth Government Service Charters are a weak instrument of accountability for public services, given the reporting requirements and limited redress. Complaint and redress are linked to administrative law provisions. With the devolution of responsibility to agencies and the relocation of the coordination unit to APSC (formerly the PSMPC) in the PM&C portfolio there is a weak imperative for performance reporting.

Whilst adopting principles of customer service and guarantees from business, the development of Service Charters for public services has greatly exceeded the development of service guarantees in the private sector. Service guarantees, advocated by the ACCC since 1995, are not common practice in business. Indeed AAMI's Customer Charter was a first and service guarantees appear to be the exception rather than the norm. The Australian experience suggests that transfer is in the opposite direction. Industry Ombudsman schemes and complaint mechanisms in the private sector represent transfer of standards put in place by government in the 1970s (Smith 1997). Best practice on complaint handling is in the public sector and AAMI is evidence of transfer from public to private agencies.

Service Charters are a conformance to standards perspective on service quality. Standards relate to process quality, which for public services includes rights to complaint if not redress. Service Charters are more than rhetoric and good intentions, as implementation has included complaint mechanisms and redress. However, selection of standards needs to start with a service that recognises that the client-provider nexus is different for professional services, and that public services require different process standards.

Customer service language brings with it market logic based on the assumption of customer power or control, achieved through exit and choice mechanisms. Service Charters are a voice mechanism and the client service imperative is a fundamentally different than consumer sovereignty in the service profit chain. Democratic logic is based on the assumption of citizen power or voter sovereignty, achieved through voice mechanisms such as complaints systems and new administrative law.

Service Charters as a strategy for more responsive service delivery is based on the assumption that applying marketing techniques can improve quality, and there is some truth in this (Walsh 1994). Effectiveness depends on voice rather than choice mechanisms. However, service delivery is not all there is to responsive government. Walsh (1994: 69) succinctly encapsulates the problem:

The danger of defining the public realm as the arena in which services are exchanged for taxes is that politics is reduced to service delivery rather than government, seen as authoritative decision based on collective commitment.

Customer service is a limited metaphor for understanding process quality for public services, and is neither necessary nor sufficient to improve quality. Treating citizens more like customers may actually limit service quality to the 'hotel aspects'. Customers have a choice to purchase services if they have the ability and willingness to pay. Citizens have rights and entitlements to access services if they meet needs based eligibility criteria. These are fundamentally different relationships. In competitive markets, customers' attitudes and economic value determine the quantity and quality of services. Policy processes determine the quantity and quality of services by weighting social values, and collective choices about public service provision. Quality should reflect justice and equity objectives. In the words of a delegate at an OECD symposium: "the box marked 'public interest' always requires close attention" (OECD 1996, x).

The Review and Service Charters were selected for comparative analysis of reporting on quality, in two mechanisms that introduce accountability to clients. The next chapter undertakes this comparison and considers the consequences of the different approaches to performance reporting.

CHAPTER 8

COUNTING QUALITY OR QUALITIES THAT COUNT?

8.1 Introduction

The general topic for this study is the application of business management techniques to public services. In contrast to most studies that examine transfer between public and private sectors or agencies, the cases in this study compare public *services*. The specific topic is quality for public services. The Review and Commonwealth Government Service Charters have introduced accountability to clients by applying different quality improvement techniques from business. Therefore the spotlight is on the generic attributes of quality improvement techniques, and the particular contexts of public services. The main interest is in quality for health, education and community services that pose particular challenges for performance reporting.

Service Charters and the Review have introduced direct accountability to users of public services in formal performance reporting. The Review and Service Charters are voice mechanisms for responsiveness to clients, but the cases are bookends in the sense that these are contrasting approaches to defining and reporting on quality. Benchmarking of results in the Review is a substitute for market competition, and relies on performance indicators and measurement for quality improvement. Charters are a quality assurance strategy for improvement, based on mandatory service standards and complaint processes. Despite the language of customer service, charters are a voice rather than choice mechanism for client responsiveness, and effectiveness depends on access to complaint and redress for service failures.

Quality is a measure of effectiveness in the Review, defined as 'conformance to standards' and 'fitness for purpose'. Quality is defined as 'customer service' in Service Charters. Performance reporting in both cases does provide more information about quality, including from the client's perspective. However, performance reporting in the Review and Service Charters provides different evidence of quality. Quality indicators and measures in the Review are 'tin openers' that track changes in clients' views and outcomes, and these are a significant development in policy evaluation. Service standards and information on complaint processes in Service Charters enable qualitative evaluation of service delivery, but public reporting of this effect has been extremely limited.

Information to signal quality is an essential element in service agreements between different levels of government and contracts with autonomous service providers. Specifying quality is one problem, and the cases illustrate how different definitions of quality change what is reported. Information asymmetry is a second problem, and the cases illustrate provider-client and purchaser-provider asymmetries that characterise public services. In theory, agreed objectives and transparent performance reporting against a balanced set of indicators in the Review overcomes the problem of incomplete information (IC 1996; PUMA). In practice gaps in quality indicators and measures have inhibited balanced reporting. Service Charters only apply to APS agencies and do not extend to autonomous service providers.

The significance of the topic is the centrality of information on quality in performance reporting for policy evaluation, and for contracts or agreements for service delivery. Quality is always contentious for budget-constrained public services. The way quality is defined in standards and indicators affects the balance in performance reporting. This chapter compares the findings in the two cases, and considers the implications for service delivery, policy evaluation and governance. Different definitions of quality change the balance between the interests of funders, providers, professional and clients, and asymmetric information creates accountability traps. This chapter compares the approaches in the two cases, and considers the implications for policy evaluation and service delivery.

Section 2 compares the way quality is defined and reported in the two cases. Quality is defined in indicators in the Review, and in service standards in Service Charters. The evidence of quality is external reporting using quantitative measures in the Review, and self reporting in Service Charters. The Review is a strong accountability mechanism, but limits quality to quantitative measures. Service Charters are a weak accountability mechanism. The Review relies on performance indicators and measures to improve accountability for outcomes and responsiveness to clients. The Review limits what counts as quality to what can be specified and measured. Service Charters rely on mandatory standards and complaint mechanisms to increase accountability and responsiveness to clients. Customer service standards limit what counts as to process qualities, and this excludes reliability, or technical qualities.

Section 3 considers the limitations for public services of the managerial frameworks in the cases. The Review illustrates the limitations of a production process model of performance measurement for professional public services. Separation of outputs and outcomes, as required in a production process model, is difficult for professional public services. Service Charters illustrate the limitations of a customer service model of process quality for public services. The imperative for responsiveness to clients' needs is weak for budget-funded public services, and increasing client control is difficult where professionals control technical quality standards.

Section 4 considers the implications of different definitions of quality, and evidence in performance reporting, for service delivery, policy and governance. The issue for service delivery is what is counted as quality in performance reporting, and the consequences for the balance between costs and quality. The issue for policy coordination is the evidence of quality that is used in evaluation, and the consequences for policy decisions and budget priorities. The issue for governance is responsibility for quality in fragmented funding and service delivery systems, and the consequences of accountability traps for risk management. The cases offer another view on implementation failure by suggesting that the gap between intentions and results starts with a selection problem. There are plenty of quality standards and indicators on offer, but the issue is their suitability for public services. The quality conundrum identifies what has to be considered in practice for balanced reporting.

The cases were selected for comparative analysis of how quality is made to count in performance reporting. However, in one sense the cases are not strictly comparable. Benchmarking Results is program-based and performance reporting applies to education, health and community care, the services of interest for this study. In contrast, Service Charters are agency-based and do not apply to services delivered by state and non-government agencies. However, the cases do enable comparison of different approaches to accountability and responsiveness to clients. The next section compares the approaches, and the differences are summarised in Table 8.1 on the next page.

Table 8.1
Benchmarking Results and Service Charters

| Dimension | Benchmarking Government Services | Commonwealth Government Service Charters |
|-----------------------------------|---|--|
| Timing | 1994+ | 1997+ |
| Accountability | Performance indicators and external performance reporting. | Compliance with standards, internal performance reporting and complaints. |
| Improvement logic | Benchmarking results is 'yard stick' competition. | Service standards, consumer consultation and complaints |
| Level | Performance reporting of state systems. | Service Charters are developed for agencies. |
| Political support | COAG | Minister for Customers 1997-1998 Special Minister for State 1998-2001 PSC 2001+ |
| Responsibility for coordination | SCRCSSP 1994+ Chair is the Head of the PC | DIST 1997-July 1998 Finance July 1998-2001 PSMPC/APC 2001+ |
| Responsibility for implementation | IC/PC secretariat. Working parties develop frameworks of indicators. IC/PC reports on performance against agreed indicators. | Service Charters Unit (DIST) – initial guidelines & implement timetable. CTC Branch Finance – revised guidelines PSMPC/APC 2001+ Charter Awards 2001+. |
| Resources | Dedicated Secretariat in IC/PC | Agency discretion |
| Quality defined as | Efficiency – 'conformance to standards' and 'fit for purpose'. | Customer service |
| Performance information | Quantitative indicators and contextual analysis | Quantitative indicators & qualitative information |
| Performance Reporting | <i>Report on Government Services</i> (SCRCSSP 1995, 1997, 1998, 1999, 2000 & 2001) | Internal by agencies. Two report by the Special Minister of State to parliament on implementation progress (Ellison 1999 & 2000). Agency Annual Reporting Requirements from 1999. State of Service Reports 1998, 1999 & 2000. |
| Contributions | Nationally agreed objectives. Suite of effectiveness indicators including equity & access. Nationally comparable performance measurement and reporting on efficiency and effectiveness indicators. Contextual analysis of service systems. | Institutionalising complaint processes. |
| Limitations | Reporting based on quantitative measures. Reporting on outcomes. Reporting on client views of effectiveness. Complaints and redress indicators of access & equity | Customer service model of process quality. Limited reach of Service Charters to professional-client relationships. |

8.2 The elusive search for balance

Path dependence in the process of change is explained by the historical and institutional context in which the Review and Service Charters developed. The contextual variables examined in Chapters 2 to 5, offer an explanation of the different trajectory between the cases. The Review was facilitated by earlier work benchmarking economic infrastructure services, and was driven by the broad application of contracting to social welfare services. Service Charters were introduced in the first term of the Howard Government, but the initiative was facilitated by earlier developments internationally, and the Taxpayer's Charter and Child Support Clients' Service Charter ATO.

Institutional analysis offers an explanation of why the productivity imperative has taken precedence over quality in performance reporting. Finance and PC have elevated the productivity imperative, and the philosophical stance of the PC explains the approach to performance measurement in the Review. In contrast quality improvement has been devolved to agencies since the FMIP was first introduced in 1984, and the Implementation Unit has relocated from DIST to Finance, and then to the PSMPC. Although the ACCC and the Ombudsman have supported the introduction and development of Service Charters, the Implementation Unit was separated from Consumer Affairs in the move to Finance in 1998.

The acceleration of contracting and the Howard Government's reform agenda changed MAB's focus to a greater emphasis on financial management (MAB 1997). Service Charters were the first and only centrally coordinated quality initiative, but this has been reduced to an Awards Scheme, and this does not attract a great deal of interest from agencies. Although Service Charters were separated from Consumer Affairs in 1999, the ACCC and the Ombudsman have continued to champion Service Charters. Institutionalising complaint schemes may be the enduring legacy of this initiative.

Working Parties in the Review and agencies for Service Charters have considerable discretion in defining quality. In practice, balance and clarity in performance reporting has to deal with different definitions of quality and complex accountability relationships for professional public services. The cases enable comparison of performance reporting between different accountability mechanisms. Three specific questions were considered in each case:

1. Who is accountable for quality? The issues are separating and assigning responsibility for quality in complex delivery systems and reporting on quality of outputs linked to social policy outcomes.
2. How is quality defined? The issue is specifying quality in standards and indicators. Services have technical and process qualities, and process quality has equity dimensions for public services.
3. What is the evidence of quality in performance reporting? The issue is balance and clarity in performance reporting. Funders, providers, professionals and clients have different views and information about quality. Quantitative measures and qualitative information provide different evidence about quality.

These questions determine what is counted as quality. Different definitions of quality and information asymmetry between funders and providers, and between professionals and clients, explain gaps in performance reporting. This has consequences for policy evaluation and budget priorities, and for the balance between costs and quality of service delivery. One issue is the balance between accountability for political control over outcomes and managerial autonomy, to improve service delivery. Accountability to clients introduces a second issue for professional public services, which is the balance between accountability for client control and professional autonomy.

8.2.1 Separation: Who is accountable for quality?

On the question of who defines quality, the cases are different approaches to accountability and quality improvement, and this reflects different objectives. The primary intent of the Review is consistent data on the performance of government-funded social service, to enable comparison and evaluation of policy outcomes. The primary intent of Charters is to improve the responsiveness of providers to the needs of clients. Service Charters introduce direct accountability of agencies to clients but are a weak instrument. In contrast, the Review is a strong instrument, but accountability to clients is indirect. The state governments as joint funders with the Commonwealth are accountable for program outputs and outcomes. The Review, through very public benchmarking, seems likely to provide a stronger inducement for quality improvement than Service Charters, particularly if the response to the awards scheme is indicative of the general commitment by agencies.

Quality is defined by the Working Parties in the Review. Despite the strong arm of the PC, in prescribing a general framework of performance indicators, the Working Parties have considerable discretion, and this is reflected in considerable variation between the 22 service frameworks. Accountability traps, arising from gaps in quality indicators and measures, are evident in the Review. Part of the explanation appears to be confusion surrounding the use of 'customer/consumer/client' to define relationships with service providers. Notwithstanding the gaps in client views, transparent reporting makes this a strong accountability mechanism for client responsiveness.

Quality is defined by agencies in Service Charters, and according to the principles this is in consultation with clients. Although the Awards Scheme has attracted a very low level of interest from agencies, it has provided better practice cases in process quality and complaint handling, and the Ombudsman has provided some evidence of improved complaint handling since the introduction of Service Charters. Institutionalised complaint processes for APS agencies may be an enduring legacy of this initiative that changes the culture inside agencies. However, internal reporting is negligible and there appears to be low awareness on the part of clients. This suggests Service Charters are not very effective in strengthening direct accountability and responsiveness to client needs.

8.2.2 Specification: What counts as quality?

Specification problems explain gaps in performance reporting that limit accountability for policy outcomes and responsiveness to clients' needs. Quality is defined in indicators and measures in the Review, and in standards in Service Charters. Quality is defined as 'conformance to standards' and 'fit for purpose' in the Review, and in practice there are more quality indicators based on 'conformance to standards' and 'fit for purpose' from a funder/provider perspective. Conformance to standards is generally measured by provider accreditation and the incidence of service failure in a technical sense, however measures of complaints are the exception. Performance indicators limit quality to what is specified and measured. Quality is defined in technical and process standards in Service Charters, but in practice standards are generally limited to process quality. This probably reflects the emphasis on customer service in the Service Charter Principles.

As discussed in Chapter 3, different approaches to performance reporting provide different information on quality. Performance reporting does provide more information about quality in both cases, including from the client's perspective. However, as discussed in Chapter 3, monitoring results in the Review, and compliance with Service Charters standards, provide different evidence of quality. Quality indicators and measures in the Review are 'tin openers' that track changes in clients' views and outcomes, and the Review represents a significant development for policy evaluation. Service Charters regulate delivery by setting minimum standards and reporting on complaints, however public reporting has been extremely limited.

8.2.3 Performance reporting: What is counted as quality?

Service Charters and the Review have introduced direct accountability to users of public services in formal performance reporting. The intention is to shift the balance in reporting toward client views, and there is evidence of this in both the external reporting in the Review and internal reporting on Charter compliance. There is clearly more information about quality for professional public services as a direct consequence of The Review and Service Charters, have provided more information about process quality for agencies rather than services. However, as this case illustrates, internal reporting is a weak voice mechanism. The Ombudsman has provided some evidence of improved complaint handling since the introduction of Service Charters and there is minimal reporting on compliance which is internal.

As discussed previously, performance information is evidence about quality, and the cases provide quite different evidence. Performance monitoring in the Review is a strategy to reduce the gap between policy objectives and results. Performance reporting against Service Charters is a strategy to improve responsiveness to the needs of clients. A consistent finding in both cases is the gap between theory and practice. In theory, agreed objectives and transparent reporting, against a balanced set of performance indicators, overcome the problem of incomplete information in contractual relationships (PUMA 1994; IC 1996). In practice, suitable effectiveness indicators and outcome measures have inhibited balanced performance reporting for public services (Smith 1993; Carter 1998). In theory, Service Charters increase client control by consultation in setting service standards and the systematic implementation of complaint mechanisms. In practice, service Charters are a weak instrument of accountability.

In summary, whilst change has been evolutionary, a pattern is evident as new performance reporting mechanisms have opened departments and agencies to more central inspection (Davis 1995). The broader context of administrative, legislative, microeconomic and social policy reform offers an explanation of the difference in the timing and sequence of change between the cases. Institutional analysis offers an explanation of the different approaches to defining and reporting on quality between the cases. Notwithstanding the gaps in indicators and limitations of performance measurement, the Review represents substantial progress in performance reporting on quality, and Service Charters have institutionalised complaint processes even if reporting is weak. In this sense at least, the Review and Service Charters have increased information and accountability to clients.

Defining and measuring quality is acknowledged as difficult for services, public and private. The theoretical question of interest in this study is why this is more difficult for health, education and community services. The answer is that these services have *professional* and *public* qualities that are difficult to separate, specify and measure. The practical question is whether business techniques are the solution to the problem of information to signal quality to avoid the problem of adverse selection. In answer to the research question, quality standards and indicators change the balance in performance reporting in different ways. Performance reporting for COAG provides more information about quality of outputs, outcomes and client perceptions. Notwithstanding the gaps in quality indicators and measures limit accountability and client responsiveness, this is a significant development in performance reporting.

Service Charters provide more information on process quality for clients. However, assessing the impact of performance reporting on service quality and client responsiveness is more difficult. The next section examines the limitations of transfer in the two cases. The practical issue is the widespread belief that agencies responsible for funding and delivery of public services should look to business for quality standards and indicators, and for best practice in quality improvement.

8.3 The limits of managerial frameworks and contracting

Classification shapes debates about transfer. As this study demonstrates a public/private dichotomy does not capture significant differences in context with

implications for defining and signalling quality. On the 'private' side, manufacturing and services are different perspectives on quality that are applied to public services. On the 'public' side, markets and policy processes are different perspectives on client responsiveness. Definitions of quality and improvement techniques taken from manufacturing have limitations applied to services, and definitions of quality taken from business services have limitations applied to public services. As discussed in Part I, public characteristics and three different definition of quality for services identified in Table 5.3, explain the ambiguity in the concept of quality for public services. Professional public services are a critical test of universality, and the 'professional' and 'public' attributes of these services limit transfer.

CTC changes performance reporting from internal evaluation to external audit. However, complex accountability relationships and information asymmetry between funders and providers, explain gaps in performance reporting that limit client responsiveness. The new resource management framework changes performance reporting to outputs and outcomes. However, complex links between outputs and outcomes, and information asymmetry between providers and clients, create gaps in performance reporting that limit client responsiveness. Performance measurement changes the balance in performance reporting from qualitative to quantitative information. However, specification and measurement problems explain gaps in performance reporting that limit client responsiveness. Charters introduce service standards and complaint. However, customer service limits quality to process dimensions and excludes equity. These problems, evident in the Review and Service Charters, illustrate the limitations of managerial and economic models of performance for public services.

8.3.1 A principal-agent model of accountability relationships

New accountability mechanisms introduce direct accountability to clients. However, both cases in a sense illustrate the limitations of applying agency relationships to public services. In theory, purchaser-provider arrangements separate responsibility for the cost and quality of outputs, and social policy outcomes. As this study has recognised, separating responsibilities and information asymmetry are more complex for public services than is suggested by the principal-agent model. Information asymmetry is a problem in provider-client relationships for services, and in funder-provider relationships for public services.

In theory, funders are responsible for policy outcomes and responsive to political priorities. Service providers are responsible for service delivery outputs and responsive to managerial priorities. Professionals are responsible for technical quality of services provided and responsive to professional priorities. In practice, responsibility for quality is difficult to separate in the complex delivery systems and coproduction that characterise public services, and therefore must be shared. Incomplete performance information in practice may increase, rather than reduce, the gap between policy intentions and service delivery results. The divergent interests of purchasers and providers, professionals and clients, all contribute to accountability traps that explain policy failure. Clear separation of responsibility for quality in a purchaser-provider model of accountability relationships, does not exist in practice for public services.

8.3.2 A production process model of performance measurement

The Review has institutionalised performance measurement for 'social infrastructure services'. Quality is defined in performance indicators and measures based on a production process model that separates links the quality of outputs to social policy outcomes. The experience of the Review illustrates the limitations of a production process model, and performance measurement, for professional public services. Two problems associated with the approach were identified in Chapter 5. Firstly, outputs are processes and the link to social policy outcomes is complex for professional public services. Secondly, quality is not easily standardised and quantified for professional services. These problems are evident in the Review, and reflected in the changes over time in the indicators and measures of quality, and in the variation between the service frameworks.

A production process model for professional services exacerbates information asymmetry. As discussed in Chapter 5 performance reporting has to overcome information asymmetry in two relationships for professional services. The first is the gap between funders, or purchasers, and providers in contractual relationships (Pollitt 1999). The second problem is the gap between providers and consumers, inherent in professional services (Walsh 1991; Harvey 1996). Professionals have information about technical quality that clients cannot evaluate. Client surveys reflect process qualities.

The standardisation of outputs and quality assumed in a production process model of performance measurement is difficult in practice for professional public services.

8.3.3 A customer service model of client responsiveness

Service Charters have institutionalised complaint mechanisms for services delivered by APS agencies. However, as the case illustrates, there are limitations in applying a customer service model of quality to public services. Services are complex and customer is a deeply ambiguous metaphor for public services. Customer service excludes technical qualities, and does not take into account the equity dimensions of process quality for public services (Walsh 1994). The quality imperative for public services relies on political rather than market processes. Citizen voice rather than consumer choice is the imperative for process quality for public services. Procedural fairness is not easily quantified but is fundamental to quality for public services. Complaint and redress are better indicators of client outcomes than customer satisfaction surveys. Quality is inherently political for public services. Client perceptions of quality affect their assessment of service delivery and confidence in service providers. More significantly, clients' perceptions of quality affect their assessment of the publicly funded programs and confidence in government.

Customer service language brings with it market logic that critics argue displaces democratic logic (Walsh 1994). Market logic is based on the assumption of customer power or sovereignty, exercised by exit and choice under contract law. Democratic logic is based on the assumption of citizen power or sovereignty, achieved through voice mechanisms such as complaints and redress, under administrative law. Direct consultation is an alternative to market choice. The imperative for responsiveness to clients needs is weak for budget-funded public services, and increasing client control is difficult where professionals control technical quality standards. A customer service model limits accountability and client responsiveness for public services by displacing equity.

In summary, the case studies illustrate the limitations of managerial models, and demonstrate the problems in transferring ambiguous concepts from private to public services. 'Purchasers and providers', 'outcomes and outputs', and 'customers', suggests a clarity that does not exist in practice for public services. Gaps between policy

intentions and service delivery outcomes are an enduring problem, well documented in public and management research. Policy implementation is a long complex chain from talk, to decisions, to actions and results (Pollitt 2001). The implementation problem that explains the gap between intentions and the results may in fact be a selection problem. The quality conundrum identifies what has to be managed in practice for balanced reporting.

The Review demonstrates the limitations of a production process model of performance measurement for professional public services. Service Charters shows the limitations of a customer service model of client responsiveness for public services. Contracts, a production process model of performance management, and customer service standards increase rather than reduce the separation between funders and providers, between outputs and outcomes, and between professional and clients. In practice, complex relationships for public services create accountability traps (Uhr 1989) that limit political and client responsiveness.

As discussed in Chapter 2, the appeal of managerialism is in the techniques (Pollitt 1990), and the argument for applying business techniques is based on two assumptions (Palmer 1998):

1. Private sector techniques are inherently more efficient and should be applied to the public sector activities.
2. Management is a universal activity and the context is of secondary importance to the specific techniques.

Under the rubric of 'performance management' the language of 'client responsiveness', and 'customer service' was added to 'managing for results'. However there is an inherent contradiction in performance management between managing for results and client responsiveness (Kettl 1997), and this is reflected in the difference between the cases. Benchmarking in the Review directs attention to results. However, not all frameworks include designated quality indicators, and clients' views are persistent gaps in performance reporting. Imprecise allocation of costs will distort efficiency judgements, and gaps in quality will distort effectiveness judgements. In contrast standards in Service Charters direct attention to client service. However, this concentrates on effort on process quality which may displace outcomes for clients and

the community. Service standards that exclude reliability, and limit quality to customer service, will distort judgements about success.

Policy makers need ways of judging the success of public investments, and need to decide between the competing claims on scarce budget resources. Service providers need information to evaluate and improve service delivery. Quality needs to be defined, and evidence is needed for performance reporting. Quantitative measures are useful instruments in tracking quality. However, different evidence used to signal quality, changes the balance in performance reporting. So the next section considers the consequences of selecting evidence to signal quality in performance reporting at three levels: service delivery, policy and governance. Gaps in performance reporting that limit responsiveness to political priorities, and to the needs of clients, are a problem at each level.

8.4 Consequences of selection in performance reporting

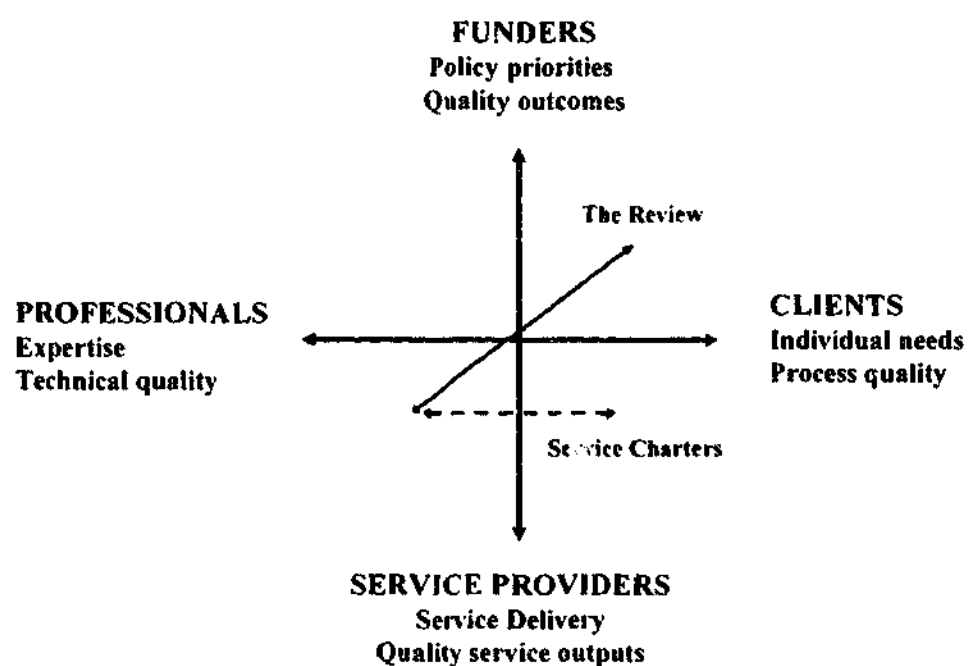
As Pollitt (2001) points out, implementation is a long chain from talk, decisions and actions, to results. Decentralisation and fragmentation of service delivery divides political authority and increases the complexity of accountability relationships. This study has concentrated on two strategic relationships for professional public services: the funder-provider interface and the professional-client interface. An assessment of the impact on the balance in performance reporting in the two cases is shown in Figure 8.1 on the next page.

On the funder-provider axis, the issue is political responsiveness to public policy priorities. Cost-effectiveness is a strategic imperative for budget-constrained public services. Funders and providers have different information on the quality of outputs, and on the value of outcomes. On the professional-client axis, the issue is responsiveness to clients' individual needs. Professionals and clients share responsibility for the quality of service outputs and provide different evidence of quality. Customising services for quality is a strategic imperative in this relationship.

Is there more information available about the quality of professional public services? The answer is yes, and this includes more information from the perspective of clients. There is more information about quality for professional public services as a direct consequence of reporting in the Review, and to a lesser extent Service Charters.

However, different definitions of quality change the balance in performance reporting. The Review is a strong pull in the direction of policy outcomes, and Service Charters are a weak push in the direction of client responsiveness.

Figure 8.1
Balance in Performance Reporting



Do quality standards and indicators improve responsiveness to clients? Although this question much harder to judge, the answer is potentially yes, but the qualifications are significant. Quality indicators shift the balance in performance reporting from qualitative to quantitative information. Performance reporting for COAG increases quantitative information about quality of outputs, outcomes and client perceptions. With the backing of COAG and resources of the PC this is a strong imperative for performance reporting. As Rhodes (2000b) argues, transparent accountability in the form of performance measurement, offers more control over less. Not everything that can be counted counts.

8.4.1. Service delivery

At this level, performance reporting is an improvement technique. Performance standards and indicators are a powerful signal of what counts. The way quality is defined in standards and indicators, and the measures and information selected for reporting, are important in signalling what should get attention in daily routines and operations. Routines are defined as systems of control and come from policy and implementation guidelines (Davis 1995). The issues are responsiveness to clients and improving the cost effectiveness of publicly funded services. Supporters argue that transparent performance reporting improves accountability to clients and service delivery (PUMA 1997b; Scales 1997; Barrett 1997a; DoFA 1998a). Critics argue performance reporting is a strategy to centralise strategic control over resources, and to reduce the autonomy of service providers by imposing external control over standards. The problem in practice is balancing costs and quality.

Negotiating performance standards and measures that are meaningful to professional service workers and clients, as well as to funders/purchasers and service providers, is a pre-requisite to improving quality. Even the IC recognised the issue (IC 1996, 352):

Where there are problems in specifying quality and in measuring outcomes as with many professional public services it becomes more difficult to develop comprehensive and unambiguous performance specifications, making it harder to monitor and correct performance problems. As a result, the risk of failure to meet the expectations of the client group increases.

Efficiency improvements are achieved by reducing costs while maintaining quality, or by increasing quality while keeping costs constant. Equity requires a minimum level of service quality and quantity (Crompton & Lamb 1986). Equity improvements are achieved by better access, service delivery that is responsive to the needs of clients, and complaint and redress processes (Wilenski 1986). Costs and quality pull providers in different directions, and the quality imperative is weaker for budget-constrained public services. Service Charters are weak accountability mechanism, but complaints do strengthen accountability for democratic processes. Benchmarking is a strong accountability mechanism, but limits client responsiveness to quantitative measures.

Process quality is an important dimension of quality for professional services, and has an equity dimension for public services. Consultation in setting service standards and

complaint mechanisms that increase consumer control are a potential strength of Service Charters. Monitoring client perceptions in SCRCSSP and Service Charters is necessary but not sufficient for responsiveness to clients, as this depends on sanctions for non-performance.

The Review does represent progress in shifting the balance in performance measurement from efficiency to effectiveness, and Service Charters appear to have improved complaint handling and resolution procedures. However, both initiatives have encountered predictable hurdles. Quality is harder to specify and measure for professional services. Linking outputs to social outcomes is difficult in complex delivery systems for public services. Costs are easier to quantify and measure than quality. Monitoring outputs and outcomes does not resolve the tension between efficient use of scarce budget resources and responsiveness individual client needs. The client imperative is weaker than the productivity imperative for public services. The risk of elevating costs over quality is dissatisfied citizens and declining trust in public services.

8.4.2 Policy evaluation

Budget funds for programs and services are the practical expression of government policy priorities. At this level performance reporting is a means to judge whether or not expenditure on programs is meeting public policy objectives. Evidence is the new currency in policy evaluation in debates about cost-effectiveness of services, and in delivery by public and private providers. Qualitative evaluation and performance measurement use different evidence to make these judgements (PUMA 1996c; World Bank 2000), and increasingly these judgements are based on performance measurement.

Budget reform opened departments and agencies to central inspection and decisions (Davis 1995, 120). Strategic control of resources, by central agencies controlling budget process and the evaluation agenda, reduce the power and autonomy of professional providers (Henkel 1991). Performance monitoring is changing strategic control from departments to central agencies, which earlier managerial techniques failed to do, by capturing control of the evaluation agenda (Zifcak 1994 & 1997). The question for policy coordination is, as Rhodes (2000b) suggests, whether monitoring enables more control over less.

Information is the foundation of performance reporting, and is important precisely because of the influence on political priorities and policy decisions. The way quality is defined, and the information selected for reporting, influences what is counted in debates about cost-effective service delivery, and comparisons between public and private providers. The issue is judging success, based on the evidence of quality provided in performance reporting. Increasingly, this evidence is in the form of quantitative measurement, and is being used to arbitrate competing claims for scarce public resources. Quantitative indicators limit what gets counted as quality, but there is place for measurement in policy evaluation. Performance measurement is necessary, but not sufficient for public policy decisions (Pollitt 2000). An issue for further research is the extent to which auditing and quantitative measurement is displacing qualitative policy evaluation.

The assumption that performance reporting is managerial and technical ignores the political dimensions of specifying social outcomes that are the goals of policy (Duckett & Swerrissen 1996). This also ignores the political dimensions of selecting the indicators and measures that determine whose interests are taken into account. Accepting the role of measurement also means accepting the limitations of quantitative evaluation. Performance measurement cannot solve value differences, but can help resolve policy debates by making the differences more transparent (Pollitt 2000). The paradox of performance measurement in the Review is that transparent indicators and measures increase rather than resolve political conflict over the funding and distributional consequences of social policy decisions.

8.4.3 Governance

The concept of 'governance' is a central theme in contemporary debates (Rhodes 2000a; Keating et. al. 2000), and has displaced 'management' as the focus of work of the OECD's PUMA. However, governance is another ambiguous concept (Rhodes 1997). Quiggin (1999, 46) describes 'governance' as:

... the process by which institutions, including government and corporations, are made accountable to those whom they are supposed to serve, such as citizens and stakeholders.

Public accountability is a dimension of governance (Gilmour & Jensen 1998), and at this level, transparent performance reporting is a hallmark of public or democratic

accountability. Quality standards and indicators are important because they influence community perceptions and political priorities (Eckersley 1998). If what is counted as quality is not what counts, then the result is a democratic deficit (Kettl 1997).

The shift from 'government' to 'governance' is used to signal a change from line bureaucracies and direct control, to fragmented service networks and indirect control (Rhodes 2000a). Markets, bureaucracies and networks are different governance structures that rely on different accountability mechanisms for control and policy coordination (Rhodes 1998). Markets rely on contract specification for control and prices for coordination – Adam Smith's infamous invisible hand. Hierarchies rely on strategic planning or budgets for control and coordination – Alfred Chandler's renowned visible hand of management. Networks rely on cooperation and trust for coordination, and this is Lex Donaldson's (1991) ethereal hand.

Markets will fail where it is difficult to specify the price of a good or service (Simon 1991; Rhodes 2000b). Markets will also fail where it is difficult to signal quality. Performance indicators replace prices as the coordinating mechanism in quasi-markets. Contracting relies on specification of performance criteria and indicators, and will fail where it is difficult to specify performance indicators. As this study has recognised, specification to signal quality is one problem, complex relationships are another.

CTC notwithstanding, public services are delivered in quasi-markets (Walsh 1995), and the coordinating hand of performance reporting is somewhere between Chandler's visible hand of management and Smith's invisible hand of the market. The issue for governance is responsibility for quality in fragmented funding and service delivery systems, and the consequences of accountability traps for risk management. Performance reporting as a control mechanism is central to corporate governance in the public and private sectors (Barrett 2000). The reforms have sought to change the balance from financial compliance to performance, by changing the basis of accountability. As the Auditor-General repeatedly argues, what is sought from new accountability systems is a balance between 'conformance' and 'performance' (Barrett 1997a; 1997b; 2000).

However, the change to 'outcomes' does not resolve the tension between political, managerial, professional and clients' accountabilities. Balancing different interests is not peculiar to public services. Funders, service providers, professionals and clients can and do contest quality and value. The issue is how to manage the inevitable conflicts of interest, and even the strategic management literature recognises that this is a political process (see for example Chapter 8 in Mintzberg, Ahlstrand & Lamprel 1998). The practical problem is that pluralist stakeholder models are indeterminate when it comes to prescriptive answers (Donaldson 1991; de Wit & Myer 1994).

In business management, authority is centralised in the chief executive officer. Constitutions deliberately spread authority in government between competing institutions. Power is not centralised, but is dispersed between the executive, bureaucracy, judiciary and parliament. Public management requires coordination between the different levels of government and the different agencies that deliver services. Complex accountability chains for public services lead to accountability traps (Uhr 1989). Purchaser-provider arrangements the different levels government, and the complex nexus between public/non-profit/private agencies, create gaps in responsibility and responsiveness. Accountability is more than performance reporting (Uhr 1989).

As discussed in Chapter 5, professionals who interact directly with clients are Lipsky's street-level bureaucrats, and are gate-keepers with considerable control over who gets access to services (Crompton & Lamb 1986). Quality standards and indicators can be used to introduce client perspective, and this was the primary intent of Service Charters. However, Service Charters do not apply to agencies outside the APS. Although there are significant gaps in reporting on client views, the Review is more transparent and informative. Complaints are not generally included as a quality indicator in the Review, and are not generally reported for Service Charters. Qualitative and quantitative analysis of complaints in reporting by the Ombudsman, represents a better practice guide.

The steering and rowing metaphor does not resolve the balance between control and trust (de Carvalho 1998). Providers and professionals are the rowers who interact directly with clients. As suggested previously, funders, providers, professionals and clients share responsibility for quality. Trust is essential in funder-provider, and in professional-client relationships, precisely because it is difficult both to separate responsibility, and to define and assess quality. Certification or accreditation is one way

of signalling quality to funders and to clients. Indicators and measures is another, and both have limitations for public services. As Mintzberg (1981) has recognised, the worst way to correct deficiencies in professional work is by technocratic standards.

Professional public services are at the epicentre of the inevitable disputes about responsibility for the costs and quality of public services, in Australia's federal system. Public services are funded by government agencies and provided to the public. The Commonwealth Government contracts with the state and territory governments, and with public and private agencies, to deliver services to designated 'publics'. Whilst 'public' is another ambiguous concept, this does signal the use of public funds, for which the government is accountable, to provide services in pursuit of public policy objectives.

Parliament ultimately has responsibility for public accountability, but legislative provisions relate to agencies rather than services. Public sector agencies are subject to audit and provide Annual Reports to parliament. Private sector agencies that deliver publicly funded services can come under the scrutiny of the Auditor-General. However these agencies are not subject to administrative law provisions that apply to public agencies (Brennan 1998). The Auditor-General has argued that private agencies contracted to deliver public services should become part of the public accountability chain (Barrett 1997b). Responsibility for service delivery can be transferred to autonomous providers, but responsibility for outcomes from service delivery cannot (Osborne & Gaebler 1992; Scales 1997; Barrett 2000). Moreover, responsibility for quality is shared.

In summary, the way quality is defined in standards and indicators changes the balance in performance reporting, and this has implications for governance in fragmented systems, policy evaluation and improving service delivery. The issues around transfer, illustrated in the cases, relate to definitions of quality and the nature of relationships for public services. The issue for service delivery is what is counted as quality in performance reporting and the consequences for the balance between costs and quality. The issue for policy is the evidence of quality that is used in evaluation and the consequences for budget decisions. The issue for governance is responsibility for quality and the consequences for risk management.

The cases offer another view on implementation failure by suggesting that the gap between intentions and results starts with a selection problem. There are plenty of quality standards and indicators on offer, but the issue is their suitability for public services. The quality conundrum identifies what has to be considered in practice for balanced reporting.

8.5 Conclusions

The Commonwealth government is the primary funder of professional services in Australia, through grants and SPPs to the States, and through service agreements with non-government agencies. Service delivery systems are complex networks of public, private and non-profit agencies. As a monopoly purchaser facing competing demand for scarce budget resources, the imperative for improving service quality, and responsiveness to client, is not competition for customers but managing social risk and citizen trust in government.

Changing from professional to consumer control, necessary for more responsive service, is difficult. An impediment is provider knowledge and power, derived from their specialist knowledge. Traditionally professionals controlled service standards which critics argue had little regard for clients (Pollitt 1988). Competition between service providers, to give consumers greater choice, is the preference of economists and advocated by the PC. Markets rely on customer choice and exit for consumer responsiveness. Clients are customers and consumers. A direct, if complex, link between customer satisfaction, retention and profitability is a strong imperative for client responsiveness. Policy processes rely on citizen voice and participation for consumer responsiveness. Competition is between service providers for public funds or scarce budget resources. Funders and purchasers are the 'customers' of service providers. Access to public services is still decided primarily by political and professional judgements (Pollitt 1988). Clients are consumers with needs and citizens with rights.

Performance reporting in the Review and in Service Charters give consumers a stronger voice through formal satisfaction surveys, consultation and complaint mechanisms. The effectiveness of Benchmarking and Service Charters as a voice mechanism depends on transparency and openness of performance reporting and complaint mechanisms. Customer service language brings with it market logic to which has to be added

democratic logic (Walsh 1994). Market logic is based on the assumption of customer power (consumer sovereignty) achieved through exit and choice mechanisms. Democratic logic is based on the assumption of citizen power, or voter sovereignty, achieved through voice mechanisms such as complaints systems and administrative law. New accountability mechanisms rely on regulation and voice more than competition and choice.

Client responsiveness is deeply ambiguous for professional public services. As Mintzberg (1996) argues, clients wear many hats with different and often conflicting interests. Budget funding is the main source of revenue for public services. Equity has to be added to productivity and quality, but there is no place for equity in the service profit chain. Stakeholder or social values have to be added to shareholder or economic value. Judgements are qualitative and inherently political. Providers are managers and professionals. Clients are consumers and citizens. Professional public services illustrate the tension between responsiveness to policy priorities of representative government, and to the needs of clients who are consumers and citizens.

Performance management is a managerial model that disguises rather than resolves political problems. Accountability for public services is inherently political, precisely because the allocation and distribution of scarce public resources is contested. The paradox of monitoring quality is that transparent standards and indicators will increase, not decrease, politics in policy debates. Responsiveness to the needs of clients' is a distributional problem that must be managed by political rather than administrative decisions (OECD 1987). Defining quality in standards and indicators is a political, rather than managerial problem.

Contracting increases rather than reduces the scope and complexity of systems for delivering professional public services. This has the effect of increasing rather than simplifying the complexity of accountability chains. There are many qualities that count and not all these can be counted. Performance monitoring has much to offer service providers seeking to improve service delivery quality and client responsiveness. Monitoring quality and client views has much to contribute to policy evaluation. However there is more to social policy than client views and more to service delivery than customer service. Understanding that clients are citizens, and not just consumers, is

necessary in thinking about relationships for professional public services, to improve client responsiveness.

Information to signal quality is used for external accountability and internal improvement. Funders responsible for devising information and reporting systems for professional public services can use the quality conundrum as a diagnostic tool, to assess balance in reporting on quality. Selection of indicators and measures needs to start with a process model that recognises the different nexus between outputs and outcomes for services, and the different nature of process quality and its relationship to value for public services. Process quality has equity as well as 'customer service' dimensions. Customer satisfaction is profoundly ambiguous for public services. Rather than 'customers', public services have multiple stakeholders with divergent and sometimes conflicting interests. Complaints and redress may be better indicators of responsiveness to users than customer satisfaction indices. Not everything that counts can be counted.

In practice, the reporting on quality has to deal with different definitions of quality and complex accountability relationships for professional public services. The lesson from the cases is that selection of standards and indicators needs to start with process models that recognise that the inputs-outputs-outcomes nexus is different for services, that the provider-client nexus is different for professional services and that public services require different indicators of process quality.

Professional public services such as health, education and community care are acknowledged as a difficult case and therefore a critical test of the idea that performance management is generic. As Hughes (1994, 256) argues:

new public management, or any theory arguing that the public sector requires its own specialised form of management, is itself under threat from the idea that management is *generic* and technocratic.

The cases appear to contradict the 'generic' management thesis that is a fundamental proposition of 'managerialism' (Hood 1989, Considine & Painter 1997). Quality is not a universal concept in theory or in practice, and there are limitations in applying business techniques to public services. Moreover, as the Service Charters case illustrates, 'best practice' is not found exclusively in the private sector, defined by business and

competitive markets. The experience in the cases suggests that the implementation problem, which explains the gap between intentions and results, starts with a selection problem. There are plenty of quality standards and indicators on offer, but the issue is their suitability for public services. The quality conundrum recognises what has to be considered in practice for balanced reporting.

By way of finishing, the final chapter considers the theoretical and practical implications of the research findings and outlines an agenda for further research.

CHAPTER 9

NEW INSIGHTS, PERSISTENT REALITIES

9.1 Introduction

Contextual analysis is fundamental to case study, as action is deeply embedded horizontally in time and vertically in context (Pettigrew 1993). In what has been a long wave of international reform, public management has replaced the traditional model of public administration in NPM heartlands, including Australia (Hughes 1994 & 1999; PUMA 1999). Managerialism brought the language and techniques of business to public services, and a further move to contracting has elevated the language of economics and quantitative approaches to performance management. As Davis (1997a) contends, shifting from managerialism to contractualism does away with the 'public' in management. Corporate governance is the latest manifestation of the displacement of 'public' from the language surrounding publicly funded services (Barrett 2000a).

Managerialism and contractualism are founded on assumptions of universality. Managerialism elevates business as the best practice benchmark, and economics elevates competition and markets as the best way to deliver public services. Performance management and contracting have changed accountability relationships between funders and service providers, and between professionals and clients for public services. Performance reporting has increased information about quality for professional public services, and the balance has shifted from professionals and providers to funders and clients.

The title for this chapter is taken from Selznick (1996), who has questioned the wisdom of drawing a sharp line between 'old' and 'new' institutionalism. Reflecting on 40 years of organisational studies from a sociological perspective, Selznick (1996, 2) argued that new institutionalism has generated "fresh insights and interesting shifts of focus", however underlying continuities are strong. Institutional perspectives draw attention to the importance of structure and values in shaping policy decisions and implementation (Peters 1992). Historical institutionalism (Peters 1999) was used to investigate the transfer of ideas about quality from business and economics to public services. Therefore change is explained by the timing and sequence, and by the central agencies that have shaped policy frameworks and implementation guidelines (Pierson 2000; Pollitt 2001).

Historical institutional theory has been used, as Selznick advocates, to trace the emergence of particular strategies from patterns of adaptation that are understood as a response to the environment. As Selznick suggests, the problem is linking the larger view to the particular context. This study has attempted to make this link by placing the cases in the broader context of microeconomic, social policy and management reform over three decades.

As this study has illustrated, four social paradoxes and complex transfer create a 'quality conundrum' that has practical consequences for performance reporting. Ambiguity in the concepts of accountability, performance, service and clients explains the four social paradoxes. The particulars of different service contexts explain the limits of transfer to public services, and this is not captured in a public/private dichotomy. The quality conundrum is a conceptual framework that identifies the particulars of the context of professional public services that have to be taken into account in reporting on quality, and this was applied in two case studies. This chapter summarises the argument in answer to the research question, considers the implications for theory and practice, discusses the limitations of the study and identifies an agenda for further research.

Section 2 addresses the research question. Evidence to signal quality is central to control in fragmented systems, and to improving service delivery. Performance reporting is an external accountability mechanism for control over autonomous providers and professionals, and a technique to improve the responsiveness of service delivery to needs of clients. Quality is defined in standards and indicators, and evidence in reporting is used to signal performance. However, different definitions of quality taken from business, and information asymmetry in relationships for public services, explain gaps in performance reporting that limit accountability and responsiveness to clients. The issues around transfer relate to complex relationships and the qualities of public services. Professional public services are a limiting case.

Section 3 considers the general lessons that can be drawn from this study, and discusses the implications for theory and for practice. Previous Australian studies have attributed implementation failure, arising from gaps in reporting, to a lack of quality indicators and suitable measures (Howard 1991; Alford & Beard 1997). This study suggests confusion about intent is another explanation for the sour law of unintended consequences (Selznick 1996; Rhodes 1997), and the gap between policy talk and

results (Pollitt 2002). According to the policy guidelines, direct accountability is intended to increase the responsiveness of service providers to individual needs of clients. However, confusion about the way quality is defined and reported for services, which starts in management theory and practice, may limit rather than increase accountability and therefore responsiveness to clients. As this study illustrates, different definitions of quality and confusion about client relationships for public services may exacerbate rather than overcome metering problems and information asymmetry in accountability relationships. The problem of provider-client asymmetry, inherent in services, exacerbates the purchaser-provider asymmetry that characterises public services.

Broader theoretical and practical implications of the study are in the two analytical shifts that provide a different approach to the study of transfer. Changing the level of analysis from the agencies to services, and using service continua rather than a public/private dichotomy, offers a different view of the particulars of public service contexts. The quality conundrum can be applied as a diagnostic technique to identify the interests that have to be balanced in reporting on quality for public services and for professional public services. As illustrated in the cases the quality conundrum can be applied to analyse reporting in different accountability mechanisms.

Quality for professional public services is a new arena for some old debates, and Section 4 considers three contests. The clash between quality management and agency theory, examined in this study, is one variant of the enduring contest between economic and social values. Professional public services are the last frontier for contracting, and this has revived an old contest between markets and policy processes. Policy makers do need ways of judging the success of public investments, and need to decide between the competing claims on scarce budget resources. The broad application of performance measurement that takes in quality represents the triumph of quantification.

In the narrow view, performance monitoring is a quantitative accountability mechanism and measurement is another old debate. The problem identified in this study is that the conceptual richness of quality for professional public services does not translate easily into quantitative measures, scales or indices. As the quote attributed to Albert Einstein points out, what gets counted as quality may not necessarily be what counts. Qualities that count are value judgments managed through political processes in democratic

societies. Furthermore, what is counted as quality has implications for who gets what in allocating scarce public resources. Defining quality in standards and indicators is political, not managerial and technical (Carter & Greer 1993). Responsibility for outputs linked to policy outcomes, and responsiveness to clients' individual needs, push and pull service providers in different directions.

The general topic is the transfer of business management techniques to public services to improve quality and responsiveness to clients. Professionalised public services are a difficult case and therefore a critical test of the generic management thesis. Universality is the basic assumption of this thesis. The gap between professionals and clients adds to the gap between purchasers and providers in performance reporting.

The practical issue is the widespread belief that management techniques are universal and 'best practice is to be found in business', and applying business frameworks to public services will improve accountability and service delivery. However, the generic management thesis ignores ambiguities in quality management theory and underestimates the complexity of transfer from manufacturing to professional public services. The general research problem is defining quality, and selecting evidence to signal quality, to overcome information problems in the complex relationships that characterise delivery systems for professional public services. This study has examined two techniques, quality indicators for benchmarking results by the SCRCSSP for COAG (Chapter 6) and quality standards in Commonwealth Government Services Charters (Chapter 7). The next section provides a summary of the findings and specific responses to the research questions.

9.2 A Quality Conundrum

Part I of the study, in Chapters 2 to 5, examined the historical context that explains the transfer of quality improvement techniques from business to public services. Monitoring quality is a technique to improve accountability of service providers for performance and to improve service delivery for users. Performance reporting serves different interests. This study recognised the interests of four stakeholders: funding agencies, service providers, professionals and clients. Federalism and contracting separate the roles and responsibilities of funding agencies and service providers. Budget reform in the APS has changed the basis on which public services are funded from

historical cost to performance, defined as outcomes and outputs. Monitoring quality links the performance of service providers to outputs and outcomes for clients.

Chapters 4 and 5 explained the 'service' and 'professional' characteristics that limit transfer of techniques for monitoring quality from business to public services. As the cases demonstrated, professional public services such as health, education and community do pose particular challenges for monitoring quality. Different definitions of quality lead to confusion in selecting suitable information for performance reporting. Chapter 4 considered the transfer of quality improvement techniques from manufacturing to services. Chapter 5 examined transfer to professional public services. The issues around transfer relate to the 'professional' and 'public' qualities of these services. On manufacturing-services continua, professional services with high credence attributes are an extreme case. On public-private continua, professional services are also an extreme case.

Part II of the study, in Chapters 6 to 8, examined the definition of quality and the balance in performance reporting in two cases. There are two explanations for gaps in performance reporting that limit political and client responsiveness for professional public services. The first is different definitions of quality in standards and indicators. Ambiguity in the concept of quality is amplified when business frameworks are transferred to public services. QA, customer perceptions and results are different perspectives on quality in services management. However, these do not take into account the qualities of public services. The second explanation of gaps in performance reporting is information asymmetry in the professional-client interface. Professional services have credence attributes that explain information asymmetry between professionals and clients. Tension between professional autonomy and client responsiveness compounds the tension between managerial autonomy and political control for public services.

The Review illustrates the limitations of a production process model of performance measurement for professional public services. Separation of outputs and outcomes, as required in a production process model, is difficult for professional public services. Service Charters illustrate the limitations of a customer service model of process quality for public services. The imperative for responsiveness to clients' needs is weak for budget-funded public services, and increasing client control is difficult where professionals control technical quality standards.

Transferring techniques developed for manufactured goods to services explains gaps in performance reporting that limit accountability. The relationship between quality, productivity and value is different for services, and this requires a different approach to specification and reporting on quality for services. Professional services are acknowledged as a difficult case for defining and reporting on quality. Transferring frameworks from business management to publicly funded services explains gaps in performance reporting that limit accountability. Quality and value are different for public services. The quality imperative in business models is customer choice and its link to economic value measured by profitability. The quality imperative for public services is citizen service and its link to social value. So this also requires a different approach to specification and reporting on quality for public services.

The research question asked: What are the consequences of transferring quality standards and indicators from business to professional public services? This was answered in three parts:

1. *What has happened?*
2. *Why?*
3. *What are the consequences?*

To answer the first question, path-dependent change in performance reporting explains the broad application of contracting and performance measurement to public services. Service quality has been defined in new accountability mechanisms and quality improvement techniques. However, confusion about the way quality is defined and reported is evident in policy statements, implementation guidelines and evaluations.

In answer to the second question, a pragmatic mix of ideas about performance management from business, and ideas about contracting from economics have been applied by the central agencies responsible for developing the policy and better practice guidelines that have shaped implementation. These guidelines have confused rather than clarified specification and reporting on quality.

On the third question of consequences, different definitions of quality taken from manufacturing and services management to public services explain gaps in performance reporting that limit accountability and responsiveness of service delivery to the needs of clients.

In investigating the consequences of transfer, three propositions were advanced and considered:

1. Quality is ambiguous.
2. The complexity of transfer is not captured in a public/private dichotomy.
3. Better practice is not always found in business.

As the cases illustrate, different definitions of quality and the particular context of professional public services do explain gaps in reporting. Quality has many definitions in theory that lead to confusion in practice, and this is evident in the cases. This is reflected in the variability in standards and indicators within and between the cases. Context does matter and the particulars of different service contexts are not captured in a public/private dichotomy. The service charters case is evidence that better practice is also found in public services. Better practice complaint handling standards and processes have been developed by public agencies, and reflects a long history of dealing with procedural fairness.

The language of performance and quality management suggests a coherence that disguises theoretical and practical complexities. Perspective is a fundamental problem in social science research, and in its practical application to management. As Pettigrew suggests: "where we sit not only influences where we stand, but also what we see" (1987, 649). Stretton (1978) has characterised the problem as one of selection. Perspective is a map or partial view and is not falsifiable in the positivist sense (Rhodes 1997). Benchmarking results and Service Charters are different approaches to quality improvement. Measuring quality and setting service standards work in some circumstances and not others. Social paradox offers a way of dealing with different perspectives, and service continua offer a way of investigating the contingencies of context.

Chapter 2 examined the concept of accountability for public services and showed how different conceptions of accountability relationships lead to selection of different standards and indicators for performance reporting. Chapter 3 examined the concept of performance for public services and showed how different conceptions lead to selection of different standards and indicators for performance reporting. Chapter 4 examined the concept of quality for services and showed how different conceptions lead to selection of different standards and indicators for performance reporting. Chapter 5 examined the

concept of clients for professional public services and showed how different conceptions lead to selection of different standards and indicators for performance reporting.

Values have a central place in institutional theory (Selznick 1996). Henkel (1991) argues that facts suggest technical expertise while values imply a political argument. Instrumental rationality is a means-ends account of rationality (Rigg 1992). Rational action does not depend on the reasonableness of the goals or of the actions, merely the belief that the action will achieve the goal.

Rationality, identified as a problem in the old model of administration (Hughes 1998), appears in a new guise in NPM and 'governance'. Service outputs are not social policy outcomes. Merton's (1968) explanation is unanticipated consequences of rigid adherence to rules, whereby instrumental values become terminal values (Hughes 1994 & 1998). Outputs have displaced inputs and this is a shift in the direction of performance or results. However, outputs are not outcomes, and unanticipated consequences of rigid adherence to standards and indicators may still lead to goal displacement. Performance management, with its focus on results, underestimates the behavioural dimensions of organisation, and the network dimensions of delivery of professional public service. Quality has a different relationship to productivity and performance for services, and values are complex and contested for public services.

New models of performance management and governance have the same weakness, but in a different form, as the older administration ones. The theory of political control, one of two theoretical pillars of public administration (Hughes 1998), comes in a new guise. Separating outputs and outcomes for public services is as unrealistic as separating policy and administration. The risk in shifting the focus from processes to results for professional public services is that quality is left out of the performance equation.

Rhodes (1998) argues that any control over results is an illusion, as outcomes for something as complex as professional public services are not controllable. Quality, and its relationship to value, is complex and contested for professional public services. The Review is evidence of progress toward measuring performance in a more comprehensive way. Quality is standardised and quantified in this approach. Standards in service charters are evidence of progress towards direct accountability to clients, but

this is a weak imperative and the reach is limited to clients of APS agencies. CTC limits the application of administrative law remedies to clients of non-profit and private service providers.

A long road from administration to management and governance has changed performance reporting from resources and processes to outputs and outcomes. However, this change does not resolve the tension between efficient use of scarce budget resources and responding to the individual needs of clients, and this is a persistent reality in managing public services (Simon 1946; RCAGA 1976; Lynn 1996). Balancing political control and managerial autonomy for service providers, and balancing client control and professional autonomy, and is the holy grail of performance reporting – ‘ever sought never grasped’ (Rhodes 1998).

Concepts are ideas that receive names (Rose 1993). Two problems are recognised in the quality conundrum. One is conceptual ambiguity and the problems for transfer created by different definitions. A second is generic management concepts and techniques that abstract from the particular to the universal, and this creates problems for transfer by ignoring context. The argument is that different definitions of quality and the particulars of context explain ‘inappropriate or incomplete’ transfer, and this offers an explanation for policy and therefore implementation failure. Inappropriate transfer is explained by confusion about quality that originates in management theory. The quality conundrum identifies the particulars of the context of professional public services that have to be taken into account in reporting on quality.

9.2.1 Different definitions

The rise of managerialism has been linked with a ‘technical intelligentsia’ committed to scientific management (Yeatman 1987). Critics of managerialism argue that instrumental values and technical processes are displacing value judgements and political processes, and the consequence is a retreat from public values (Considine & Painter 1997; Wettenhall 1997). Performance management is not objective or value free, and quality indicators and standards are political not managerial (Carter & Greer 1993). The way service quality is specified determines whose interests are taken into account, and stakeholders with different interests will contest quality standards and indicators.

Performance reporting changes accountability relationships between governments that fund, and agencies that deliver, public services (Pollitt 1990a; Hughes 1994; Zifcak 1994; Uhr 1999). Responsiveness to clients adds another dimension to accountability. Goal displacement results from separation and specification, as well as measurement problems (Merton 1967; Owen & Rodgers 1999; Smith 1996), and this is evident in the cases. In the first case, separating outputs and outcomes to benchmarking results has proved difficult for professional public services. Conceptual ambiguity in the definition of quality explains gaps in indicators that limit reporting. In the second case, customer service is a narrow definition of process quality for public services, and ignores technical quality. Separation, specification and measurement increase transparency in performance reporting, but create accountability traps (Uhr 1989).

Accountability for performance links inputs to outputs and outcomes. Performance monitoring changes the basis of accountability to the criteria specified in standards and indicators. Resource allocation linked to performance indicators has implications for policy outcomes (Carter 1993). Together with the inherent bias that performance monitoring has toward quantitative evaluation, this can result in goal displacement (Merton 1967) or tunnel vision (Smith 1993). Critics of measurement are concerned that quantification becomes a substitute for judgement (Gregory 1999; Waldersee 1999).

9.2.2 Particular contexts

Context is of primary importance, and is significant in explaining path-dependent change and in understanding the limits of transfer. Australia is identified as part of a 'core NPM policy community' (Common 1998) and an NPM heartland (Pollitt 1998), but the approach to reform has always been evolutionary and driven by pragmatic practitioners rather than ideology (Wanna, Forster & Kelly 2000). This reflects the demands of a mixed system of parliamentary government and a federal structure. Kettl (1996, 260) has suggested reformers have "indiscriminately mixed and matched ideas". Reform has not been an indiscriminate mix in Australia, as policy frameworks and implementation guidelines have explicitly recognised the need for balance. However, the reforms have elevated the productivity imperative and performance measurement. An important question, not answered in this study, is whether this has been at the expense of quality improvement and evaluation.

There is nothing new in the argument that context is significant (Pettigrew 1993; Pollitt 1995 & 2001; Guthrie 1999). However, this study casts new light on the limitations of transferring business techniques to public services. There is more recognition that conceptual ambiguity leads to confusion in practice. There is less recognition that the complexity of transfer is not captured in a private/public dichotomy. The study investigated public services, not public agencies or the public sector. Professional public services are a difficult case for monitoring quality, and a public/private dichotomy does not capture the particulars of the different contexts on a continuum from manufacturing to professional public services.

The essence of lesson drawing from cases is generalising from experience by searching analytically rather than anecdotally (Kose 1993). Lessons invite conclusions about what 'works'. Specification and measurement of quality is acknowledged as difficult for services, public and private. The theoretical question of interest in this study is why this is more difficult for services with *professional* and *public* qualities, and the practical question is whether business techniques are the solution. The next section summarises the lessons from the cases and considers the implications for theory and practice in public management research.

9.3 Lessons from this study

As MAB recognised, a problem in assessing the applicability of techniques for performance improvement in the APS is the reliance on "testimonials parading as case studies" (MAB-MIAC 1992, 395). The issue, as MAB explicitly states, is not the relevance of trialling best practice from any source, but how carefully the approach is tailored to the needs of particular organisations and the broader public context.

Transfer across time was explored in the official stories examined in section 2 of each chapter. The path from administration via performance management to governance, analysed in section 2 of each chapter, increases the centrality of the problem of performance measurement (Davis & Rhodes 2000). Expenditure on public services has increased, not decreased (Keating 1998). The bottom line for public services is social equity and the outcome is transparency, which is a process. Clients are still citizens whether they wear a 'customer', 'consumer' or 'client' hat. Quality is still at the centre of debates about funding and access, or distribution of scarce public resources for health, education and community services.

Transfer across space was examined in section 3 of each chapter. Central agencies have been instrumental in shaping reform through a pragmatic selection of ideas from business and economics. With the ascendancy of Finance and the Audit Office, the budget and performance audit agenda has occupied centre stage. CTC has increased the distance of funders from direct service delivery, and the complexity of service systems. The essential story has been the elevation of efficiency and effectiveness, defined as outputs and outcomes, judged by evidence based increasingly on quantitative measurement at the expense of qualitative information.

The consequences of transfer for balanced reporting on quality for public services unfolded in the cumulative story in section 4 of each chapter. Professional public services are a difficult case for monitoring quality. Contracting has elevated external reporting and measurement. Quality standards and indicators from business have elevated customer service. The case studies suggest support for Zifcak's (1994 & 1997) contention that external performance monitoring is shifting evaluation from professional to central control as intended, but that this does not increase client control.

9.3.1 Implications for theory

Selznick (1996) has called for policy-centred approaches that are based on analytical sophistication and theoretical reconstruction. This study offers a modest contribution, by providing a public service process perspective on the analysis of accountability and responsiveness problems. At the agency-client interface, clients are citizens with rights, as well as and consumers with needs. A public service process perspective takes equity, as well as efficiency and effectiveness, into account in the performance equation (Selznick 1996; Kettl 1999).

The use of social paradox and the approach to classification in this study, raise some general issues for public management research. Changing the focus of research from public agencies to public services is one fundamental analytical shift in this study. The problems in specifying and monitoring quality for this class arise from their 'professional', 'public' and 'service' characteristics.

Changing from dichotomies to continua is another fundamental analytical shift in this study. Services marketing and management classifications proved useful in highlighting professional characteristics with implications for defining and reporting on quality for

public services. Public management classifications highlight dimensions on a public-private continuum. However, it has been argued that there is as much diversity within the public sector as there is between the public and private sector (Carter, Klein & Day 1992). A significant source of this diversity is explained by shifting the focus from sectors and agencies to manufactured goods and services. The typology developed in this study has been applied to performance measurement (McGuire 2003c), but there is scope for further research on service productivity.

Public management as a profession draws on many different theoretical frameworks (Denhart 1990 cited in Hughes 1998), which tend to be equated with disciplines, in particular economics and management. A more coherent model dominates economic theory. Managerialism assumes that management is generic and technocratic (Hughes 1998). The significance of differences between the public and private realm is an old debate. Shifting the spotlight from agencies to services casts a new light on this debate.

The limitations of transfer are not captured in a public/private dichotomy. On the 'private' side, manufacturing and services process models are different perspectives on quality, applied to public services. The nexus between quality, cost and value is different for services because of process consumption and direct interactions between providers and customers as consumers (Grönroos 1990; Gummesson 1998). On the 'public' side, markets and policy processes are different perspectives on client responsiveness. Accountability relationships are fundamentally different for public services and process quality has an equity dimension.

Differences in public and private values are significant for performance monitoring in general, and quality in particular. Public and private differences are more important than similarities (Allison 1983). Performance monitoring for public services is different because of the nature of public purpose and accountability requirements. Perspectives on service quality derived from services marketing and management research generally ignore the implications of the characteristics of public services for performance monitoring (Walsh 1991). This study supports the contention that monitoring quality requires a different conceptual framework for public services. Public services have multiple accountabilities. This means that business frameworks have to be modified for the distinctive context of public accountability (McGuire 1989).

9.3.2 Implications for practice

Theoretical debates about concepts have practical consequences for quality standards and indicators. Conflicting theories lead to muddled thinking about practical problems (Wilenski 1986). A central issue in developing better policy outcomes is the evaluative framework used to assess options (Banks 1999). Transparent performance reporting will increase, not reduce, the tensions between efficiency and effectiveness (including access and quality), between accountability and responsiveness, and between economic (efficiency) and social (including quality of service delivery) dimensions of public policy.

The practical question is what can be done to improve balance in performance reporting. A number of suggestions follow from this study. The first step is to recognise what balance means, and whose interests are included in performance reporting. Funders, providers, professionals and clients share responsibility and have a legitimate interest in quality. Reporting has to overcome information asymmetry in professional-client as well as funder-provider relationships.

Balanced reporting means balance between different mechanisms, as well as balance within any particular framework. Service Charters offer a client perspective on quality, but limited internal reporting means this mechanism is not significant in the accountability matrix. In contrast, the Review is a serious initiative, backed by COAG and substantial resources for the SCRCSSP, and this does appear to influence policy, if not service delivery. There is a place for quantitative 'tin openers' in tracking policy and service delivery, but persistent gaps in quality indicators and measures inhibit balanced reporting. Appropriate indicators and suitable measures both require development.

Balanced reporting, to meet five principles of 'good practice' recognised by the Auditor-General (Barrett 1997b), requires reporting on economy, efficiency and effectiveness objectives. A lesson from the services management research is that productivity and quality are not separate in the process consumption that characterises services. The problem with business models is that equity in the performance equation is market equity. Market equity is not the public standard. Social equity brings 'public' values back into the performance equation.

There is a fundamental tension between 'managing for results' and 'client responsiveness' that is not resolved by resort to the language of business. 'Customer' is a deeply ambiguous metaphor for professional public services that leads to confusion in practice. Public choice theory leads to the proposition that markets are more efficient than governments in providing public services. Market ideology expressed in public choice theory (Self 1993) relies on exit and choice for responsive public services. Political ideology relies on voice and participation for responsive public services.

However purchaser-provider arrangements are in the nether world of quasi markets. Responsiveness depends on the ability of political processes to empower clients as consumers, and as citizens with a voice to participate. Judgements about the relative efficiency and effectiveness of market and political processes are ideological rather than empirical.

There is profound confusion about the nature of quality and its relationship to performance for professional public services that is reflected in debates about specification and measurement. The quality imperative is fundamentally different for public services, where the bottom line is social value measured by equity, not just economic value measured by productivity. Competition is still primarily for scarce budget funds, and demand is derived from policy processes based on collective political choices, not individual choice (Stretton & Orchard 1994). Responsiveness to clients as consumers is not all there is to accountability. A legal rights model of consumer power relies on government regulation of service providers and professionals (Asher 1998).

Quality has many definitions in theory and in practice, and this is evident in the cases. Different definitions of quality are reflected in the variability in standards and indicators within and between the cases. The particulars of context are significant, and the Service Charters case is evidence that 'best' or 'better' practice is also found in the public sector and agencies. Best practice standards and processes on complaint handling have been developed by public agencies, and this reflects a long history of dealing with issues of procedural fairness that date back to administrative law reforms in the 1970s.

Applying ideas from business and economics to develop performance reporting frameworks for public services has raised three issues. The first issue is separation. Purchaser-provider arrangements in a federal system explain the role of external

performance monitoring as a steering or coordination mechanism. Outcomes and outputs budgets explain the need to standardise quality for public services. The second issue is specifying quality that is a necessary precondition for reporting. Quality is defined in indicators and measures in the Review, and the experience illustrates why professional public services are at the high end of the difficulty scale for performance measurement. Quality is defined in standards in Service Charters, and the experience illustrates the limitations of a customer service definition for public services. The third issue is evidence to signal quality in performance reporting. Benchmarking results and customer service standards provides different information about quality.

Information asymmetry between purchasers and providers remains an issue for contracting. Information asymmetry between providers and clients is an inherent characteristic of professional public services. Specifying and measuring quality from a balanced set of views will surface the tensions which is one step, necessary but not sufficient, towards resolution. There is no escape from qualitative debates about values, and these debates are inherently political. If quality is to be part of the agenda for governance, policy and service delivery, then the information about the qualities of publicly funded services is essential.

Informational problems are recognised as commonplace and significant in contracting. In 2001 the economists Akerlof, Spence and Stiglitz were awarded the Nobel Prize in Economic Sciences for their analyses of markets with asymmetric information (Bank of Sweden 2001). The press release announcing the prize describes the problem of asymmetric information as that "actors on one side of the market have much better information than actors on the other side". In awarding the prize, the committee recognised that asymmetric information theory provides a key to understanding many observed market phenomena.

Contracting has brought the language and logic of markets to the provision of public services and asymmetric information theory offers a key to understanding gaps in performance reporting for professional public services. This study has revealed how the problem of provider-client asymmetry for professional services exacerbates the purchaser-provider asymmetry that characterises public services. This has profound implications for monitoring quality and performance.

The case studies support the proposition that contradictions in management theory confuse the selecting of quality standards and indicators for professional public services. As the quality conundrum recognises, four social paradoxes are explained by differences in perspective on accountability, performance, service and clients. Quality as an indicator of client responsiveness is concerned with improving service delivery processes. Quality as an indicator of effectiveness is concerned with program outcomes or results.

As discussed in Chapter 1, social paradoxes are contesting realities, rather like Herbert Simon's (1946) contesting proverbs in administrative theory, that lead to "muddled thinking about practical problems" (Wilenski 1986). Long before the language of business colonised public management, Hebert Simon (1946) recognised ambiguity in the term 'service' that merges the competing claims of purpose and process. Tension between process and results, or form and substance, is a persistent reality in performance management for public and for private services (Lynn 1996).

Conceptual ambiguity and transfer have been the subject of inquiry in this study. Social paradox provided the analytical framework for investigating the practical implications of different definitions of quality. Historical institutional analysis provided the framework for investigating the path of transfer. Four social paradoxes and transfer from manufacturing to professional public services create a quality conundrum that has implications for performance reporting. As the comparative analysis of the cases in Chapter 8 demonstrates, the way these tensions are managed in practice through the definition of quality in standards and indicators, and the selection of measures and information for performance reporting, have profound implications for service delivery and social policy outcomes.

The language of management may have displaced that of administration, but separating policy outcomes and service delivery outputs is the old policy/administration dichotomy in a new guise. A policy/service delivery dichotomy for public services is as pernicious as the policy/administration dichotomy, subject to devastating critique in Pressman & Wildavsky's (1973) classic implementation study. Politics could not be separated from administration of public services, and politics cannot be separated from management or governance. In the words of Paul Hasluck (Keating 1998, 44): "Politics is to public services what water is to a fish".

Outputs/outcomes and process/results are pernicious dichotomies for services. Relationships between processes and outputs, and providers and clients, are more complex for professional services. Relationships between purchasers and providers, outputs and outcomes, are more complex for public services.

Wilenski (1988, 217) suggested that managerialism too easily degenerates into a mechanistic view, that is a return to instrumentalism by the back door of the policy/administration dichotomy. It is conceptually muddled thinking to argue that democratic processes interfere with efficiency (Wilenski 1988, 218). This takes us back almost three decades to the definition of efficiency in the Coombs Report discussed in Chapter 3 (RCAGA 1976, Vol. 1, 31-2). Productivity is only a partial measure of efficiency. As Coombs recognised there can be no efficiency without effectiveness, and for public services, there can be no effectiveness without equity. Deming also recognised this, and argued that government service has to be judged on equity as well as efficiency. Quoting from an interview with Oscar A. Ornati, Deming (1986, 198-9) warned of the danger in adopting private management techniques:

The notion that we must be efficient in the same way in both sectors is fallacious. For government, efficiency must be subsumed to equity. If we do not keep equity in the forefront of the public sector, we will destroy our society. It is unfortunate that we tend to lavish so much praise on the management specialists who laud the techniques of private sector management in the public sector. Many such techniques are good, but there is a danger if we forget about the required orientation to equity and the different accountability processes. Actually, we need both.

Most ideas in public management have had earlier lives in the cycles of fashions and fads observed in public administration (Spann 1981; Hood 1995b). The language of governance may be displacing public administrative and public management, but the debates canvassed by Coombs three decades ago still resonate in Australia. Supporters of economic rationalism and managerialism claim too much, however critics ignore problems of responsiveness that the reformers looking to business are trying to address (Corbett 1996). Quality for professional public services is a new arena for three old debates, and these are examined in the next section.

9.4 New ideas about old debates

Management theory in general, and services management in particular, confronts the interface between science and the humanities. Public management confronts the

interface between public and private realms. All this makes for complex theory and confusion in practice. Simon (1946) recognised the ambiguity of the term 'service' that merges the competing claims of purpose and process. The tension between process and results is a persistent reality recognised by public management scholars (Lynn 1996).

9.4.1 Quality: economic and social values

Professional public services are a new battle ground for an old contest between economic and social values in judgements about welfare. Economics is a powerful social science, and the influence of the PC and Finance has elevated the productivity imperative. In contrast, quality management has been devolved to agencies along with the management improvement agenda. As discussed in Chapters 3 and 4, there is a fundamental tension between the role of performance reporting for quality improvement and for financial management.

Outcomes and outputs budgets and performance measurement are descendants of Taylor's scientific management. Scientific and humanistic theories are two seemingly irreconcilable visions of management that have battled for supremacy for most of the last century (Garbor 2000). However, as discussed in Chapter 4, quality management has roots in both scientific and humans relations theories (Grant *et al* 1994; Garbor 2000). This battle has spilled over into the public sector with the importation of quality concepts and improvement techniques (Pollitt 1990a; Michlethwait & Wooldridge 1996; Garbor 2000).

The lesson from this study is to bring the 'public' back in to debates about policy and service delivery. This means balancing economic and social values, and placing clients as citizens and consumers at the centre of judgements. The question is one of balance, not a choice, between economic and social perspectives on enterprise, and between economic and social capital. Government, entrusted to invest public funds in the public interest, has a responsibility in enabling this balance.

9.4.2 Professional public services: markets and policy processes

Markets and public policy processes are different ways of allocating and distributing public services that rely on different coordinating mechanisms (Self 1976; Emy 1993; Stretton & Orchard 1994). Markets rely on exit and choice for consumer control, and price to signal individual preferences. Public policy processes rely on voice and

participation for citizen control, and performance reporting to signal social preferences. Markets and policy processes both fail, and the consequences for service recipients and the community, measured by economic and social costs, are particularly acute for professional public services. Prices and performance reporting are both imperfect coordination mechanisms. Standards and indicators are a limited voice mechanism, particularly for professional public services, because of credence attributes and the nature of process quality. Quantitative quality indicators limit client responsiveness to measurable attributes. Customer service standards limit client responsiveness to process quality. There is more to quality for professional public services than customer service and quantitative measures.

There is an inherent conflict between political accountability (democratic logic) and market logic (Doubuzinskis 1997). Market ideology is a powerful metaphor, and with the language comes a logic that affects the allocation and distribution of publicly funded services. Public services should be managed in the public interest. In democratic systems, the measure of public interest is not a particular result or outcome, as costs and benefits are a value judgement. The measure is open, transparent policy processes and public accountability.

Public enterprise satisfies needs. In contrast, private enterprise satisfies demand, that is to say needs and wants backed by purchasing power. Organisational hierarchies and markets are different structures for allocating resources and distributing goods and services. As Mintzberg (1996) contends, 'markets are crass; hierarchies are crude'. Emy's (1993 Chapter 8) social market model is a clarion call for balance between state and market, individual and collective social responsibility, political and economic systems, ethical and economic values. The fundamental principle is collective social responsibility, in the public interest of social cohesion and integration, and government has an active, not a passive, role in taking responsibility for public services.

Market logic narrows public interest tests. Democratic logic relies on political processes and public accountability tests. A political model of democratic accountability clashes with a market model of consumer accountability. Changing the language from public administration to public management, and more recently to governance, is powerful but ambiguous rhetoric. First there is market language, reflecting the logic of economics. The primary objective of efficiency is achieved by market competition, and productivity

is the measure. Secondly there is the language of managerialism with inherently contradictory logic. The fundamental tension is between rational or scientific and power-behavioural or human relations approaches to management. Thirdly there is the language of public accountability, reflecting the political logic of commitment to open and transparent decisions about access to publicly funded services. Parliamentary democracy empowers the executive to govern subject to the law and accountability (Davis 1995, 24). Purchaser-provider relationships, outcomes and outputs budgets, and a customer service mode, assume a clarity that does not exist in practice in the particular context of professional public services.

The language of managerialism elevates performance management with its focus on outcomes. However, process consumption is an integral characteristic of services. Contractualism elevates economic value and individual choice. However, social value and collective choice are characteristics of public services. There is a balance to be struck between efficiency in the use of scarce public resources and equity in responding to the needs of clients. This is still fundamentally an ethical, not a managerial or marketing problem (Wilenski 1986). Giving a voice to clients is important for budget constrained public services, given their essentially non-traded status and information asymmetry between providers and clients. Performance reporting is not sufficient to put clients at the centre of decision making, but it can be used to ensure their voice is included in the balance of what counts as quality.

9.4.3 Quantification: 'looking for a lost purse only under a lamp post'

Psychometric instruments to quantify and measure client perceptions of service quality and value are a continuation of the long rise in the history of quantification. The origins have been traced back to ancient Greek philosophers (Crosby 1997). The spread of performance measurement represents a triumph of quantification over judgement. The idea that form is essentially mathematical, and number is the true essence of reality, originated with Pythagoras (Wertheim 1997). The development of customer satisfaction indices and the quantification of quality is one of many strands in this evolution, but one with profound implications for public services.

Inadequate quantitative performance indicators and measures have been regarded as the main impediment to implementing performance management. Economists delivered the instruments for measuring the efficiency of activities and outputs, in the form of

productivity scales and indices, that until recently dominated evaluations of public services. Psychologists have joined economists as the new priests of quantification, with instruments for measuring effectiveness in the form of psychometric scales and indices of attitudes and values.

A fundamental critique of quantification is that this is a numerical approach to decisions that substitutes calculation for judgement (Self 1976). Psychometric measures of perceptions from psychology have a different set of limitations, but for similar reasons, to financial and productivity measures of efficiency from economics. Both are based on positivist methodologies and measurement techniques. Quantification narrows the evaluation of quality. Customer satisfaction indices, measured with the precision of Likert scales, are at best a partial measure of responsiveness to the needs of clients for public services. Evaluation based only on quantitative measures is, as the economist James Tobin's evocative metaphor suggests, 'like looking for a lost purse only under a lamp post' (Buchholz 1999).

This is not to deny an important place for quantitative measures as tin openers (Carter 1991). In this endeavour, economists who quantify and measure activities have been joined by psychologists who quantify and measure perceptions. Together they form a powerful elite, providing instruments in the form of performance measures controlling what counts as success for public services. Quality is a perspective, not a variable, and evaluating the qualities of public services requires judgement and not simply calculation.

As this study illustrates, the question of what is evidence of good quality for public services is complicated. Quinn's (1988) answer to a similar question for effectiveness also applies to quality. The problem is with the question, which assumes the possibility of a single, logical answer based on clear assumptions, mutually exclusive categories and rational argument. Psychometricians armed with the same sophisticated statistical techniques measure attitudes in the search for the variables that will predict quality. In this they follow in the methodological footsteps of econometricians, who apply their sophisticated statistical techniques to the question of efficiency, using quantitative measures of productivity.

There is a place for measurement in performance reporting, but there is more to quality than what can be counted. As the cases demonstrate, the conceptual richness of the qualities of public services does not translate easily into standardised measures, scales or indices. Quantitative measures cannot adequately capture the duty of care and equity qualities that are integral to professional public services (Walsh 1991).

What is and is not counted has implications for who gets access to what services in allocating scarce public resources. Judgements can be informed by measurement (Zifcak 1997; Pollitt 2000) and quality is no exception to this condition. To this extent, the inclusion of client views in policy evaluation is a step forward. However judgments, particularly about quality, cannot be determined by measurement alone. An important question not answered by this study is whether quantitative measures are displacing qualitative information in policy evaluation.

A danger in uncritical transfer of concepts of quality from business is Selznick's (1996) 'sour law of unintended consequences'. When concepts are inappropriately applied to public services, quality may be distorted rather than improved. The problems, evident in the Review, are that not all qualities can be standardised and quantified, and the links between service delivery and outcomes can be difficult to assess. Performance reporting in this case may fail to evaluate or record the very aspects of the service which are regarded by the public as vital signs of its quality. The problem evident in Service Charters is that quality resides in the delivery processes, and for public services transparency of decisions made about eligibility is fundamental to perceptions of process quality.

Social Science is the battleground in the contest between the Sciences and the Humanities, and professional public services are at the centre of the engagement. The lesson to be drawn from this study is that quality for public services is more than a question of relative weights and measures.

The final section considers the limitations of this study, outlines an agenda for further research, and finishes with a summary of the argument.

9.5 In conclusion

Lesson drawing lies at the heart of comparative work (Rose 1993), and this requires a conceptual framework. This research had to confront two significant problems: quality is inherently paradoxical and professional public services defy precise classification. The quality conundrum offers a new way of thinking about professional public services that reside in the space that links the public and private sectors, where outputs are processes that lead to social outcomes, and where responsibility for quality is shared in networks of relationships between public and private agencies, professionals and clients.

9.5.1 Limitations of this study

As Stretton (1987) eloquently argues, all social science is selective. As in any social science, the conclusions in this study are a partial view. A different conceptual framework applied to the same cases would lead to different observations and reasoning (Chalmers 1999). Another researcher with a different frame of reference using the same evidence is likely to draw different conclusions and lessons.

A major strength of case study as a research method is that it recognises complexity and ambiguity. As Gummeson (2001, 34) argues:

... cases are used to arrive at specific or general conclusions about certain phenomena, recognising a multitude of variables, complex interrelationships and ambiguities in social life.

This explains the selection of case method for this study. However the strengths of case method are also its weakness. Causal models and taxonomy based on dichotomies, or mutually exclusive categories, offer a clear structure for comparative analysis (Perry 1999). The strength of causal models is prediction, but the insights from quantitative research are limited. In contrast, the strength of explanations from case studies is the social context. Social paradox and a typology based on continua made for a complex structure in this study, but provided new insights. However, these insights are contingent on the theory selected to structure comparison, the evidence selected to interpret theory and, perhaps most fundamentally the selection of cases. Selnick (1996) also offers a reminder of the partial and highly contingent nature of truth discovered in social science. The selection of theory and the research method shape the evidence and therefore the findings.

An interdisciplinary approach was adopted in constructing the conceptual framework for analysis of the cases, and this study examined the public management and the services management literature in great depth. However, there is considerable literature in sociology on professionalism, that was not examined in any depth. The main reason was the research topic, which was primarily concerned with the transfer of ideas and business techniques, so the focus was on the management literature. Nevertheless, the distinction between professionals and managers is a persistent theme in debates about managerialism. Henkel (1991) has argued in the UK context that managerialism is a strategy to reduce the dominance and control of professionals. Testing this proposition in the Australian context would require a more systematic examination of the literature in sociology on professionalism.

Historical institutional analysis was used in this study for contextual analysis of path dependence in change. However, institutional analysis that focuses on the agents of reform is not the only explanation of the transfer across time and space (Rose 1993). Moreover, this is only one approach to institutional analysis (Peters 1999). A different theoretical framework would shift the focus in explanations about the consequences of transfer.

Comparative research is contingent on the classification used, and a different typology of services would change the basis of comparison. The difficulty of classifying services was a significant problem in this study. Identifying the professional and public characteristics of the services of interest in this study was a challenge.

The narrative in this study is from documentary evidence on the public record. Performance reporting influences what gets talked about and what gets done. However, the transfer of ideas from business and economics in official speeches, reports, policy statements and implementation guidelines is not the only story. There are other influences, particularly at the street level of the professional-client interface. As Pollitt (2001) reminds us, implementation is a long chain from talk and decisions to actions and results. This study has gone no further than examining the 'talk' in public texts (Pollitt 1998) and what is reported as quality in the two cases. There is no direct investigation of actions and results, so interviews were not conducted. Interviews would cast a different light on the process of transfer in the cases. However, the concern in this

study was the balance in performance reporting and the primary evidence of this in the texts.

The cases were selected to compare different accountability and quality improvement mechanisms. The Review and Services Charters provided a contrast on both these dimensions. Notwithstanding this, and with the wisdom of hindsight, these cases are not strictly comparable. The Review is program based and performance reporting has a direct affect on education, health and community care, the services of interest for this study. In contrast, Service Charters are agency based and do not reach the professional-client relationship for services delivered primarily by state and non-government agencies. However, the case studies were selected to compare the affect of accountability mechanisms on client responsiveness, and the selection did offer a comparison of two different approaches for public services.

9.5.2 An agenda for further research

As Pettigrew (1987, 670) observed, "one swallow doesn't make a summer". However the limits of transfer are corroborated in the two cases. There are a number of ways of taking this research forward. Generalisation from case studies proceeds by replication, and this is done through further empirical testing.

This study examined only two performance reporting mechanisms. The original design included case studies of reporting on quality in Audit Office Performance Audits and in the budget PBSs, and these would be useful extensions of this research. Quality accreditation programs were considered in the initial research design, and would be a useful extension of this research for professional public services.

The case study on performance reporting for COAG could be extended in two directions. In depth comparative analysis of the changes in the frameworks and the role of the Working Parties would test variability within professional public services. This has been done for community services (McGuire 2003a). International comparison of performance measurement in other heartland NPM countries could test the historical institutional explanation of path dependence in this study. There is scope for further research to investigate the impact of performance reporting on agencies and the community sector.

The case on service charters could also be extended in a number of directions. As indicated in Chapter 7, a number of the States have introduced charter type initiatives. As the States are closer to the professional-client interface, an investigation of the definition of quality and performance reporting at this level would enable comparative analysis of professional public services. Complaint mechanisms are fundamental to client voice for public services. Investigating the approach and impact of performance reporting by the Ombudsman would enable further investigation of better practice transfer from the public sector. There is also scope for further comparative research to consider the extent to which the argument in this thesis explains implementation gaps at the individual agency level. An international comparative analysis, that applied an historical institutional explanation of path dependence in the process of change, has been published for Service Charters (McGuire 2001).

Perhaps more significantly the conceptual framework and typology developed in this study could be applied to other research problems in public management. The typology has been applied to performance measurement (McGuire 2003c), but there is scope for further research on service productivity.

Client service charters increase information about the quality of service processes and complaints. Service standards shift the balance in performance reporting from service providers to 'customer service' for clients. With the devolution of responsibility to agencies and the relocation of the coordination unit to APSC there is a weak imperative for performance reporting. There is scope for further research to investigate the involvement of clients in charter development, as well as the street level impact of complaint on service delivery. There is also scope for a comparative study of Commonwealth Government Service Charters and the *Charter of Public Service in a Culturally Diverse Society* introduced in 1998.

9.5.3 By way of finishing

Information is fundamental to performance reporting which is the foundation of accountability and quality improvement. Reporting is important because it determines the place of quality in the value equation for public services. The definition of quality in standards and indicators, and the information selected for reporting, determine whose interests are taken into account in allocating scarce budget resources, and who gets access to public services.

Quality, as this study illustrates, is deeply paradoxical for public services. The quality conundrum assists in understanding the nature of quality, and the causes of gaps in performance reporting. The first step in managing the quality conundrum is to recognise that quality is not a technical variable. Qualities are negotiated between funders and providers in political processes, and between professionals and clients who coproduce services. Services are unavoidably human, and process consumption changes the relationship between costs, quality and performance. Client-provider relationships are different for professional services, and the technical expertise of professionals and the perceptions of clients who coproduce services are different qualities. The quality imperative is different and has an equity dimension for public services, and client satisfaction is at best a partial measure. Clients have to trust the technical expertise of professionals and expect them to exercise a duty of care. Citizens expect to be dealt with equitably, and trust in government is what is at stake.

Two problems for balanced performance reporting are recognised in this study. Firstly, different definitions of quality change the balance in performance reporting. Secondly, information asymmetry between professionals and clients creates gaps in performance reporting. The issues around transfer relate to accountability relationships and the qualities of professional public services. Accountability relationships are complex. Funders, providers, professionals and clients share responsibility for performance. Funders are responsible for policy outcomes and respond to political priorities. Service providers are responsible for service delivery outputs and respond to managerial priorities. Professionals are responsible for technical quality of services provided and respond to professional priorities. Direct accountability to clients changes professional-client relationships by making professionals responsive to clients' individual needs and process quality. Purchaser-provider arrangements separate and assign responsibility for the cost and quality of outputs linked to social policy outcomes. Responsiveness to clients adds a new outward dimension to accountability. Separation in contracting increases the tension between political control and managerial autonomy. Performance reporting has to balance accountability relationships in two directions: funder-provider interface and professional-client interface. Information asymmetry in these two relationships also explains gaps in performance reporting.

Choices about how much and what qualities of service are made through political processes. Complex networks of public, nonprofit and private agencies share responsibility for these qualities. Responsiveness to the needs of clients relies on the care taken by autonomous providers and professionals. The narratives in this study shed a different light on health, education and community services by focusing on 'professional' and 'public' qualities. Governments and public, nonprofit and private providers join together in networks to fund and deliver these services. Professionals and clients come together in social processes to coproduce services that have very high social value to the community. There are no simple or universal solutions to the problems of managing quality and performance. Performance reporting has increased information about quality for professional public services and changed the balance from the interests of professionals and providers, to those of funders and clients. However there is more to quality than customer service and what can be counted.

Qualities not quality are what count, and public qualities are a matter of judgement.

APPENDIX A

PUBLICATIONS FROM THIS RESEARCH

The development of this thesis has been assisted by opportunities to present the contextual analysis, arguments and case studies to conferences in Australia and internationally. I gratefully acknowledge the support of the Department of Management at Monash University for international travel to attend the following conferences:

American Marketing Association Marketing and Public Policy Conference, 17-18 May 1996, Arlington, Virginia, USA.

Third International Conference of the International Society for Third Sector Research, University of Geneva, Switzerland, 8-11 July, 1998.

Fourth International Research Symposium on Public Management, Erasmus University, Rotterdam, The Netherlands, 10-11 April 2000.

Fifth International Research Symposium on Public Management, *Building public-private partnerships: theoretical and empirical developments*, University of Barcelona, Spain, 9 -11 April 2001.

Sixth International Research Symposium on Public Management, University of Edinburgh, Scotland, 8 -10 April 2002.

Academy of Management Annual Meeting, Seattle, USA, 2-6 August 2003.

The following referred publications are directly related to this research:

McGuire, L. (1996) Classifying Public Services to Gain Insights into Service Quality, in Hill, R. P. and C. R. Taylor (Eds) *1996 Marketing and Public Policy Conference Proceedings*, 17-18 May, Arlington, Virginia, pages 208-211. This is an extended extract of a paper presented to the conference. The paper relates to the classification of professional public services in Chapters 3 to 5 and Appendix C.

McGuire, L. (1997a) 'Service Delivery Contracts' Chapter 8 in Davis, G., Yeatman and B. Sullivan *New Contractualism: Contracts As An Organising Principle For Public Life*, Macmillan, South Melbourne. This chapter relates to Sections 3 in Chapters 2 to 5 on the transfer of ideas about quality from manufacturing to public services. This was originally presented as a conference paper at a seminar organised by the Centre for Australian Public Sector Management at Griffith University and Dr Glyn Davis provided helpful comments on the chapter.

McGuire, L. (1997b) 'Prisoners as Customers or Clients? *Australian Journal of Public Administration*, Vol. 56, No. 3, 149-51. This note on a controversy relates to Section 3 in Chapters 4 and 5.

McGuire, L. (1998b) Client Orientation, in J. M. Shafritz, Editor in Chief, *International Encyclopedia of Public Policy and Administration*, Vol. A-C, pages 406-7. Boulder, Co., Westview Press. This entry relates to Section 3 in Chapters 4 and 5.

McGuire, L. (1998a) Case Studies for Research, Chapter 18 in Browne, M., J. Forster and P. Steane (eds) *Cases in Australian Strategic Management*, South Yarra, Macmillan. This chapter relates to the research design in Appendix B.

McGuire, L. (1998c) *The Evaluative State - monitoring quality for public services*, paper presented to the Institute of Public Administration Australia (IPAA) National Conference, Practitioners and Academics Symposium, Hobart, <http://www.utas.edu.au/docs/hunsoc/cmpmp/IPAASymposium.html>. Accessed 25/11/98. This paper relates to the case study in Chapter 6.

McGuire, L. (1999) *Australian Services Marketing and Management*, South Yarra Macmillan. Preparing this book for publication occupied 2 years of the enrolment period in 1997 and 1998. The book examines the ideas from economics, marketing and management that have shaped theory and practice. The arguments relating to transfer in Section 3, particularly in Chapters 4 and 5, draw on the research literature examined in this book.

O'Neill, D. and McGuire, L. (1999) Microeconomic Reform and the Third Sector: The Australian Experience, *Public Management*, Vol 1, No. 3, 407-428. Originally presented to the Third International Conference of the International Society for Third Sector Research in 1998, this paper relates to Section 3 in Chapter 5.

McGuire, L. (2001) Service Charters - global convergence or national divergence? A Comparison of initiatives in Australia, the United Kingdom and the United States, *Public Management Review*, Vol. 3, No. 4, 493-524. This paper is an international comparative analysis of Service Charters. The paper relates to the contextual analysis for the case in Chapter 7 and policy transfer facilitated by PUMA discussed in Chapters

2 and 4. The paper was originally presented to the panel on 'Performance and Accountability in the Hollow State' at the Fourth International Research Symposium on Public Management in 2000. Professor Larry Lynn, as the discussant, provided helpful comments on this case study. A copy of this publication is bound with this thesis after the bibliography.

McGuire, L. (2003a) Benchmarking Community Services – 'nailing Jello to a tree', *The Journal of Contemporary Issues in Business and Government*, Volume 9, Number 2, 63-74. This is an extension of the case study in Chapter 6. This study examines performance measurement and reporting on community services for COAG from 1995 to 2002. The paper was originally presented at the Centre for Philanthropy and Nonprofit Studies Research Symposium, *Recent Developments in Government-Community Sector Relations*, QUT, Brisbane, 21 and 22 October 2002. A copy of this publication is bound with this thesis after the bibliography.

McGuire, L. (2003b) Marketing Professional Public Services – An Australasian Perspective, *Local Governance*, Volume 29, Number 1. This paper relates to sections 3 and 4 in Chapters 2 to 5. The paper examines the transfer of marketing ideas to professional public services. The paper was originally presented at the Sixth International Research Symposium on Public Management in 2002. A copy of this publication is bound with this thesis after the bibliography.

McGuire, L. (2003c) Contractualism and Performance Measurement in Australia, in Pollitt, C. and Talbot, C. (eds) *Unbundled Government: A Critical Analysis of the Global Trend to Agencies, Quangos and Contractualization*, London and New York, Routledge. This chapter reports on the case study in Chapter 6 for the same time period. The paper was presented in the 'Agencies and Autonomous Organizations' at the Fifth International Research Symposium on Public Management, *Building public-private partnerships: theoretical and empirical developments*, University of Barcelona, Spain, 9 -11 April 2001. Professor Christopher Pollitt, co-convenor of the panel, provided helpful comments on this case study.

APPENDIX B

RESEARCH DESIGN

1. Introduction

The general topic is the application of business management techniques to public services. The 'generic' management thesis is a fundamental proposition of what has become known as 'managerialism' (Hood 1989, Considine & Painter 1997). Managerialism is founded on two assumptions. One is the universal application of management concepts and techniques, and the second is that 'best practice' is found in the private sector, defined by business and competitive markets. The specific topic is quality for public services. Performance reporting is the foundation of accountability mechanisms and quality improvement techniques. This study considers the transfer of quality standards and indicators from business to publicly funded services. Transfer is affected by the specific context and the generic attributes (Rose 1993). The main interest is in quality for health, education and community services. Human services provided by professionals are acknowledged as a difficult case for performance reporting (Chalmers and Davis 2001; Ryan 2001). These services are acknowledged as a difficult case and therefore a critical test of the idea that performance management is generic. As Hughes (1994, 256) argues:

new public management, or any theory arguing that the public sector requires its own specialised form of management, is itself under threat from the idea that management is *generic* and technocratic.

The research question is what are the consequences of transferring quality standards and indicators from business to professional public services? This is considered in three parts:

1. What has happened?
2. Why?
3. What are the consequences?

These questions invite an explanation of how and why transfer has changed reporting on quality for professional public services.

Research in public management is undertaken from a wide range of disciplinary, cross-disciplinary and more recently interdisciplinary perspectives and paradigms (Lynn 1996; Dobuzinskis 1997; Barzelay 2001). Quality research crosses disciplinary

boundaries and uses quantitative and qualitative methods. The approach in this study is interdisciplinary drawing from research on performance management, services management and marketing, public management and economics. Interdisciplinary research has to deal with multiple literatures, methodologies and theories, and this poses a challenge for research design.

This appendix reviews the nature of explanations in social science, the use of case method for theory construction and testing, and the issues in the design of this research. Section 2 examines case studies as a social science research method, and explains why this is appropriate for this study. A case study is the preferred method for theory testing, where the researcher is unable to exercise external control over the study of a contemporary, complex social phenomenon (Yin 1984, 1989 & 1994). Case study is a systematic social science research method that has a distinctive strategy for collecting and analysing evidence (Yin 1993). A distinctive feature of this method is that theory-building and theory-testing occur simultaneously. Contextual analysis is both a strength and weakness of case study method.

Section 3 explains the research design of this study, and discusses the issues of contextual analysis, a conceptual framework, classification, and the selection of the cases for comparison. 'Lesson drawing' lies at the heart of comparative work (Rose 1993), and this requires a conceptual framework. This research design had to confront two significant problems, that quality is inherently paradoxical and professional public services defy precise classification. Two cases compare different techniques for monitoring quality, quality indicators for benchmarking results by the SCRCSSP and quality standards in Commonwealth Government Services Charters.

2. Selection in social science research

Explanations in social science involve theory construction and testing (Hunt 1993; de Vaus 1994; Chalmers 1999). Theory construction proceeds from observation to theory by a process of induction. Methodological debates relate to both the nature of theory and to the observation of 'facts' (Stretton 1987; Chalmers 1999).

2.1 Theory and explanations in social sciences

Explanation is a mixture of theory, conjecture, experimentation and observation. Scientific inquiry strives for objective explanations. Science uses methods of

observation, generalisation and experimentation to establish the objectivity of explanations. As Hunt argues, "all knowledge claims are tentative, subject to revision on the basis of new evidence" (1993, 372).

The controversy in the literature has centred on whether case study research is scientific and how the results should be justified (Eisenhardt 1989; Dyer and Wilkins 1991). Labels such as anecdotal, journalistic and story-telling are used pejoratively, to dismiss case studies as unscientific. The objective of scientific inquiry is good explanations, which are theories or inferences that are valid, reliable and useful (de Vaus 1995).

Explanation requires theory construction and testing (de Vaus 1995). Theory can be constructed inductively or deductively. A deductive argument proceeds from premises to a conclusion via rules of some logical calculus. The validity of the conclusion depends on the validity of the premises. In contrast, an inductive argument proceeds from observations to a generalisation. The conclusion depends on the logic of the generalisation (Riggs 1992). Speculation, or deduction, and observation, or induction, are different procedures for generating theories (Hunt 1991). The basis of theory construction does not distinguish scientific methods.

A research method is the logic of inquiry that justifies explanations or inferences, derived either inductively or deductively from research (Hunt 1991). Scientific method relates to the justification procedures (Chalmers 1999). Hunt (1991) argues there is a unifying logic of justification. Explanations should be 'inter-subjectively certifiable'. Theories should be testable, measures should be valid and reliable, and the data should not be fabricated or fraudulently collected (Hunt 1991).

Different methods have different procedures for inquiry and different tests to justify explanations. However, there is considerable debate about the basis of justification in scientific method. The philosophy of science deals with different perspectives on the objectivity of scientific inquiry that determine the tests used to justify explanations. Hunt (1991) distinguishes three different perspectives:

1. 'Positivist/empiricist' assumes that data provide objective benchmarks for testing theories. Falsification is the critical test to justify explanations.

2. 'Modern empiricist' assumes that empirical testing provides grounds for accepting some knowledge claims and rejecting others. Validity and reliability are the critical test to justify explanations.
3. 'Relativist/constructionist' assumes that data are theory-laden. Supportive confirmatory evidence is the critical test to justify explanations.

Social scientists need methods or procedures for research. Case study is only one of a number of methods, and each has particular rules for selecting from competing theories to explain observations (Riggs 1992). Testing of empirical generalisations proceeds via reasoning based on inferential logic. Logical inference is based on analytic induction that leads to conclusions from theoretical propositions. In contrast, statistical inference is based on deduction and leads to generalisation from observations. Explanations in case studies are based on analytical not statistical inference.

Experimental designs separate a phenomenon from its context, to allow manipulation of independent variables, so as to observe the effect on dependent variables (Yin 1984). Whilst the case researcher has no control over the events or groups being studied, a degree of control is exercised in the choice of the case. However, the purpose of control in selecting a case is not to impose a treatment and isolate causality. The objective is selecting an appropriate context for studying interdependency (Yin 1989 & 1994). Mintzberg argues that the appropriate test for inferences is not falsification, but rather more or less useful theories. Case studies are likely to provide more useful theories where the purpose is to study "dynamic systems in rich contexts" (1979:584).

2.2 Methods and facts in social sciences

The literal meaning of 'methodology' is the study of method (Riggs 1992). Methodology deals with the process of knowing, and research based on 'scientific method' implies a special kind of reliability or merit (Chalmers 1999). Scientific methods deal with the nature of observation and logical reasoning (Chalmers 1999). The distinction between method and methodology is a source of confusion. According to Riggs (1992), a methodology is a rule or criterion (or set of rules or criteria) that tells a researcher how to choose one theory out of a collection of competing theories. Scientific methods are the procedures for the conduct of scientific research, and are dictated by the logic and the empirical facts. However, theory-laden observation means

that there is no clear cut distinction between fact and theory, and this raises the question of the independence or objectivity of research (Riggs 1992).

Social causation has to deal with complex chains of cause and effect through time (Stretton 1987, 4). Theory construction proceeds from observation to theory by process of deduction or induction (Chalmers 1999). Theory testing proceeds from theory to observation, by a systematic process of analysis (de Vaus 1995). In practice, theory and observation are not easily separated. Moreover, all theory is value-laden (Riggs 1992) and all 'description' is interpretation (Gummesson 2001). The selection of a research problem, the design and the purpose of a research program, and the interpretation of the data, are all subjective (Gummesson 2001). Methodology debates are concerned with the nature of theory, and the nature of observation or 'facts' (Stretton 1987; Chalmers 1999). A fundamental issue is the objectivity of knowledge claims in social science, and this leads to debates about tests of fallibility (Bulmer 1986; Chalmers 1999).

Lynn (2001, 203) discussed methods of theory-based comparative research on administrative reform, and defined theory as: "a causal or explanatory or rationalizing logic that reduces the seemingly impenetrable or intractable complexity of comparative experience to an essential logic". As Stretton (1987) points out, all theory is selective and therefore a partial explanation or truth.

The methods of social science are different to the physical or natural sciences, and are based on observation and interpretation. Perhaps the most common distinction made is between qualitative and quantitative methods. Another distinction is between experimental, survey, case study and historical methods (de Vaus 1995). The most fundamental difference relates to the procedures for control.

Empirical research refers to the collection of 'data', which may be qualitative or quantitative, to generate and test a hypothesis. Experiments and surveys are quantitative methods. Ethnographic, grounded theory, case studies and phenomenological studies are qualitative methods. Yin (1984, 1989 & 1994) argues that grounded theory is generated by induction from observations, and does not distinguish case study method. In practice, case studies have been used to generate theory and test hypothesis, and have used both inductive and deductive methods to develop hypothesis.

Surveys, experiments, case studies and histories are different methods for understanding the causes of social phenomena. The differences concern the research design, not techniques of data collection and analysis. Each method has a different logic or strategy for collecting and analysing empirical evidence (Yin 1994), and making causal inferences (de Vaus 1995). Experimental and survey designs are based on empirical hypothesis testing, using statistical tests of significance. The logic of survey method is based on comparison of existing variation between many observations. The results of analysis of a sample are generalised to a population. A sufficiently large sample of observations allows the researcher to identify patterns or trends in the data (Riggs 1992). The justification for this method of developing generalisations is probability theory and statistical inference.

Experimental methods examine variation identified or created by the researcher's intervention. A significant case study is similar to a critical experiment in natural science (Eckstein cited in Mitchell 1983). The objective is to generalise theories on the basis of analytical, rather than statistical, inference. The difference between experimental and case method is the researcher's ability to control the phenomena under study.

Case study propositions relate to complex social phenomena characterised by interdependency. Therefore, experimental and survey methods are not appropriate. The role of theory in developing propositions prior to data collection distinguishes case studies from ethnography and grounded theory. Theory development is an essential part of the design phase (Yin 1994). Case studies are used to explain causal links that are too complex for survey and experimental designs.

2.3 Case studies: story telling and explanation

Rhodes (1994, 284) contrasted two approaches to case studies. First, there is "the Max Bygraves, "I wanna tell you a story", method. Then there is the social science method which specifies criteria for selecting, compiling and interpreting the story. The essential difference is explanation. On this basis, Rhodes is critical of case studies such as Osborne & Gaebler's (1992) *Reinventing Government* for not using a defensible method. Rhodes also argues that a loose quasi-ethnographic case study design, such as Garath Morgan's *Imaginization*, creates problems for comparability and generalising.

Classic case studies in public administration include Selznick's 1949 study of leadership; Allison's 1971 study of decision making in the Kennedy administration during the 13 day Cuban missile crisis, and Pressman & Wildavsky's 1973 study of implementation. These studies are still relevant in contemporary policy debates. Examples of classic case studies in management are Chandler's 1962 study of strategy and structure and Mintzberg's 1979 study of strategic planning. Each of these classic case studies is also a compelling story. Dyer and Wilkins (1991) argue that classic case studies are powerful because the story supports and demonstrates clear constructs.

Case studies by strategic management researchers and practitioners, some of which become best sellers, without clear constructs are essentially anecdotal. Rhodes (1994) is critical of Peters & Watermann's (1992) *In Search of Excellence*, and Osborne & Gaebler's (1993) *Reinventing Government* on these grounds. The argument is not that these case studies have no value. The argument is that drawing lessons from these studies is difficult without an explicit method and rigorous analysis (Rose 1993). An explicit method and rigorous analysis enables evaluation of the findings, and this is what separates compelling case studies from anecdotal ones.

Case method is associated with qualitative and field research techniques (Creswell 1994). A specialist literature in management provides strategies for designing case studies (Yin 1984, 1989, 1994) and the associated qualitative data analysis techniques (Miles and Huberman 1984). This case study has drawn on qualitative techniques for data collection and analysis (Creswell 1994; Miles & Huberman 1984 & 1994; Gummesson 1993).

Yin (1993) defines a research method as a distinctive strategy for collecting and analysing empirical evidence. Case study method is a procedure of inquiry or research design. Different methods have a different design logic that links the data collection and analysis to the research questions. This logic enables the researcher to make inferences concerning causal relationships among variables under investigation, and to generalise the findings (Nachmias & Nachmias 1992 cited by Yin 1994, 20). Case study method is distinct from experimental, survey (de Vaus 1995) and qualitative methods (Yin 1994). Case study method's distinct design logic determines the criteria for evaluating research outcomes.

The choice of research method depends on the research question, the control over behavioural events and the focus on contemporary versus historical events (Yin 1989). Case studies have a distinct advantage in explaining contemporary events over which the researcher has little or no control, and where the phenomenon of interest cannot be separated from the environment. Case studies are used for exploratory, descriptive and explanatory research questions (Yin 1993 & 1994; Eisenhardt 1989).

A case study is argued to be the preferred method for theory testing where the researcher is unable to exercise external control over the study of a contemporary social phenomenon (Yin 1984; Creswell 1994). Two significant criticisms of the method are the difficulty of making generalisations and the lack of rigour in implementing case study designs (Yin 1994).

The purpose of the study, not the unit of analysis, dictates the design. Case studies can be single or multiple cases. Gummesson (1991) distinguishes case studies which seek to generalise from a limited number of cases, and case history which seeks to draw a specific conclusion from a single case. Yin (1994) argues that multiple case studies, like multiple experiments, should follow a replication rather than sampling logic.

A case cannot be separated from its context. Yin (1984) provided the first technical definition (1984:23):

A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between the phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.

In the second edition, Yin expanded this definition as follows (1994:13):

The case study inquiry copes with the technically distinctive situation in which there are more variables of interest than data points; and as a result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result benefits from the prior development of theoretical propositions to guide data collection and analysis.

Scientists search for critical experiments. Public management researchers seek to identify critical cases (Allison 1980, 298). A critical instance case study examines one or a few sites for one of two purposes (GAO 1990, 45):

1. a situation of unique interest where there is little or no interest in generalising, or
2. to test a highly generalized or universal assertion through examining one instance.

Yin (1984, 1989 & 1994) suggests four research designs based on the number of cases (single or multiple cases) and the unit of analysis (holistic and embedded cases). A single case is selected as a critical test of existing theory, a rare or unique event, or a revelatory case to observe and analyse a new phenomenon. Selecting the critical or revelatory case is the major difficulty. Multiple cases may be used for comparative research. However, the logic for selecting the cases is replication, not sampling.

Case studies designs may be loose and emergent for exploratory research, or tight and structured for explanatory research. The focus is on puzzle-solving from evidence.

Case study research is geared to accepting and addressing complexity and ambiguity. The selection of the cases is theoretical and purposeful (not statistical), to give a full and rich account of a network of relationships between a host of events and factors, and not to identify single cause and effect links or piecemeal models (Gummesson 2001).

A research design provides the logic that links the conclusions from the evidence to the initial research question (Yin 1984). Yin (1994) identifies five essential components of a research design:

1. study questions;
2. propositions;
3. unit(s) of analysis;
4. logic linking evidence or data to the propositions; and,
5. criteria for interpreting the findings.

Case study method is defined by the logic linking data to propositions and the criteria for interpreting the findings, not the unit of analysis. The distinguishing characteristic is the focus on complex social phenomena, studied in their real life context with little or no control of the behavioural events (Yin 1989, 13). This is both the strength and the weakness of the method.

2.4 Criteria for evaluating results

The strengths and weaknesses of case study design have been extensively canvassed in the literature (Yin 1984, 1989 & 1994; Eisenhardt 1989 & 1991; Dyer & Wilkins 1991). The strength of the method is the validity arising from the natural setting, and therefore the potential fit between theory and reality. Demonstrating the validity and reliability of the results is considered a weakness from a positivist methodological stance.

Scientific inquiry to advance knowledge requires that designs should be replicable and that the results should be open to scrutiny and validation, or critique, by other researchers. As Miles and Huberman argue, without tests of validity and reliability, "we are left with interesting stories about what happened, of unknown truth and utility" (1984:22). However, the tests for evaluating results must be appropriate to the method (Yin 1989, Miles & Huberman 1994, Strauss & Corbin 1990). Whilst there is agreement that the criteria and tests are different for qualitative methods (Eisenhardt 1989; Gove & Fisk 1992), there is less agreement about the substantive tests in practice.

According to Yin (1984, 1989 & 1994), the four general criteria for evaluating data collection and analysis can be applied to qualitative methods, including case studies, and these are:

1. Construct validity;
2. Internal validity;
3. External validity; and,
4. Reliability.

Construct and internal validity demonstrate the internal consistency of explanations. External validity and reliability establish the extent to which these explanations can be generalised beyond the study. Case researchers can evaluate the validity and reliability of data collection and analysis, however conventional tests derived from statistical hypothesis testing are not applicable to case studies. The nature of inferences in case studies is analytical, not statistical. Case researchers have developed criteria for evaluating validity and reliability of analytical inferences (Yin 1984, 1989 & 1994; Eisenhardt 1991; Gove & Fisk 1992). (For a review of these tests see McGuire 1998a).

Internal validity is a measure of the consistent explanations or inferences. The explanations produced from case studies rely on strong association and compelling

evidence, rather than cause and effect (Rosenthal and Rosnow 1975). A generally accepted tactic for construct validity is triangulation, a term borrowed from map making, which means gathering additional information to cross check validity (Jick 1979; Miles and Huberman 1984; Gove & Fisk 1992; Yin 1994). The objective is to make the process as explicit as possible to allow the validity of the explanations to be evaluated by other researchers.

Generalisation of results beyond the immediate case depends on external validity, and the reliability of data analysis. The criticism that case results cannot be generalised assumes that a case study is a sample, and that statistical inference is the object. Case studies rely on analytical generalisation from a particular result to a broader theory. The test is empirical generalisation.

Jick (1979) first identified between-methods triangulation as a test of external validity. The case study then becomes part of a larger research strategy. Researchers have argued that increasing the scope of the study (the number of cases or sites) may increase the external validity (Miles and Huberman 1984; Yin 1989; Eisenhardt 1989). However the problem of testing the validity of the original cases remains. Cases are not sampling units chosen for representativeness. The appropriate comparison is choosing the topic of an experiment, rather than the groups (Yin 1989:38).

Reliability tests for the biases and errors in the study. Gummesson (1988) identifies three functions of reliability: the 'police function' to curb , which uses reliability to impute validity. Yin (1989) argues that the test for case study designs, in contrast to experiments, is whether another researcher doing the same case again would arrive at the same conclusions. The test is not replication by doing another case. An explicit protocol is important in establishing reliability (Yin 1989; Eisenhardt 1989). The study must be documented so that the procedures and analysis can be evaluated.

3. Issues in the design of this study

The purpose of the comparative case study in this research is to investigate the transfer of quality improvement techniques to professional public services in two different accountability mechanisms. However, quality is an ambiguous concept and public services defy precise classification. The challenge in this research was to design a study

to cope explicitly with conceptual ambiguity and the fact that transfer is more complex than a simple private/public dichotomy.

Conceptual ambiguity and transfer is the subject of inquiry in this study. Social paradox provides a conceptual framework for investigating the practical implications of different definitions of quality. Classification based on continua instead of dichotomies enables investigation of the complexity of transfer. Four paradoxes and a transfer of ideas from manufacturing to professional public services create a quality conundrum that has implications for performance reporting. The quality conundrum provides a framework to investigate the path of transfer and the consequences for performance reporting in the cases.

A Matrix structure is used in this study to accommodate the different levels of contextual analysis, theory building and testing. There are essentially two parts. Chapters 2 to 5 provide the contextual analysis and build a conceptual framework for analysing the cases. Chapters 6 to 8 test the theory by comparative analysis of quality standards and indicators in two cases. Each chapter has a distinct explanatory narrative. At the same time Sections 2, 3 and 4 of each chapter develop an argument progressively from Chapter 2 to Chapter 8 of the thesis. Table B1, located at the end of this Appendix, relates the structure to the thesis.

3.1 Narrative and analytical logic

Explanations from case studies rely on analytical logic, not statistical inferences, to justify generalisations. Lynn (2001, 195) connects lesson drawing to theory arguing:

The grinding work of teasing out practical lessons that transcend jurisdictional boundaries can be helped by resort to analytical frameworks based at least on rudimentary conceptualization.

Lynn (2001, 205) called for public management scholars to provide better "national and comparative evidence on administrative and managerial change, create and apply rigorous conceptual and theoretical frameworks", and for scholars to be "aggressive interdisciplinary in creating generative models". The challenges for theory-based comparative studies are constructing a conceptual framework for analysis, and choosing objects or domains for comparison (Lynn 2001). The conditions for comparative research are described by Lynn (2001, 205):

Properly constructed, comparative research consists of evaluation of competing explanatory frameworks, the testing of models across spatial structures/cultures/organizations/contexts, and the comparison of different instruments for achieving the same end under circumstances in which the domains being compared have certain manipulable policy, program, or institutional variables in common.

Case studies are usually reported as narratives that can be chronological, or weave events around themes or concepts (GAO 1990; Gumniesson 2001). Narrative is inherent in the purpose of case studies and the nature of inquiry, not a stylistic choice (Pentland 1999; Rhodes 2000a). Analysis is infused throughout the research process, and is not just a step after the data (GAO 1990). Data analysis is analytical, not statistical. Analytical logic is used to identify patterns and relationships, to assess their meaning and importance, and to explain events (Yin 1989; GAO 1990).

Techniques for 'data analysis' in case studies attract criticism because of the predominance of qualitative data and the lack of tests of significance. This contrasts with the statistical inference and tests of significance available for quantitative data. However, researchers have developed tactics for validating analytical inferences from qualitative data (Miles & Huberman 1984; Creswell 1994). Four techniques for case studies are (Yin 1994):

1. pattern-matching
2. explanation-building
3. time series analysis
4. program logic models

This study uses pattern-matching, explanation building and historical chronology. Three principles of data analysis for case study method are (Yin 1994; GAO 1990):

1. using multiple sources of evidence (triangulation);
2. creating a case study database; and
3. maintaining a chain of evidence, or sequence from observation to conclusions.

In contrast to random assignment to control groups in experimental design, or statistical adjustment in quasi-experiments that facilitate comparison, case studies rely on consistent evidence to build a coherent, plausible relationship between cause and effect (GAO 1990). The criterion for causality is coherence of the evidence, and consistency

with the pattern being explained. This requires a very high standard of inferential logic (GAO 1990).

3.2 Levels and unit of analysis

Any mapping exercise in management research needs to consider the arenas for analysis (Pettigrew 1993). Whilst it is important to be clear about the focal unit of analysis (Pettigrew 1993), 'units' have fuzzy boundaries in social science. Units are usually organisational groups such as agencies or organisations. In this study the group is professional public services. Lynn (2001) distinguished three levels or layers of governance, administration and management in political and organisational life:

1. institutional level between agencies;
2. managerial level within agencies; and,
3. technical level at the agency-public interface

This study is concerned with the first level. However, different levels of analysis create a hierarchy of cases in any study (Gummesson 2001). Section 2 in each chapter, proceeds from the general context of administrative and legislative reform in Chapter 2, to the specific context of two accountability mechanisms and quality improvement techniques in Chapters 6 and 7.

Classification identifies the distinctive characteristics of a class. The purpose of classifying public services is to gain a better understanding of the problems in specifying and reporting on quality. A major difficulty encountered in this study is that public services elude precise classification. Interest in this study is in *professional public services*, not the public sector or public agencies. The problems in defining and reporting on quality arise from the 'public' and 'professional' characteristics of these services. The typology used to identify the characteristics of professional public services that are significant for monitoring quality is explained in Appendix C.

3.3 Contextual analysis: historical institutionalism and path dependence of change

Contextual analysis is fundamental to case study, and significant in explaining events (Yin 1984; Pettigrew 1993; Chandler in Kantrow 1986)). Events and management action are deeply embedded horizontally in time, and vertically in context (Pettigrew 1993). This study combines historical and theory-based conceptual analysis (Lynn 2001) to analyse the transfer of ideas about performance reporting from business to

professional public services. The framework for selecting context variables is analytical synthesis from interdisciplinary research (Pettigrew 1993). Different theories offer alternative explanations of path-dependent change (Lynn 2001).

Contextual analysis in Section 2 of Chapters 2 to 7 identifies the 'path of change' (Chandler 2001) or 'trajectory of reform' (Pollitt & Summa 1997; Pollitt & Bouckaert 2000) in Australia. Chronologies are important in identifying the pattern of path dependent change. Appendix D provides a detailed chronology that identifies events, institutions and ideas that have influenced the trajectory of reform.

Path dependency explanations draw attention to the timing and sequence of change (Pierson 2000). Issues of temporality are at the heart of analysis, which requires historical analysis of context. Questions relate to what happened and when. The particular sequence of events is a key part of the explanation for divergent outcomes (Pierson 2000). To explain a particular social variable we need to understand "how it got there – the path it took" (Pierson 2000, 252). The broad conception of path dependency is that previous events in a sequence influence outcomes and trajectories (Pierson 2000, 252). The narrow conception path dependency is that steps in a particular direction induce further movement in the same direction. In contrast, in the broad conception of path dependency the trajectory is a temporal sequence rather than a self-reinforcing process. Path dependence of change offer important insights for understanding political dynamics (Pierson 2000).

Institutional theories explain divergence in NPM practices within the NPM heartland (Pollitt 2001, 945). Institutional theories focus analysis on agents of reform (Pollitt 2001, 945). Historical institutional analysis in political science recognises that temporal processes are embedded in institutions (Pierson 2000). The institutional side has received more attention than temporal processes in explaining political outcomes (Pierson 2000). Historical methods for gathering, organising and interpreting evidence are used extensively in case research. The fundamental task of a historian is to record where, when, how and by whom (Chandler 2001). Historians search for patterns in events and use interpretive methods for explanation (Nevett 1991; Benjamin 1998). Historical method accepts and deals with ambiguity, and this is a strength (McGraw in Kantrow 1986).

3.4 Social paradox to deal with ambiguity in management theory

Paradox offers a framework for dealing with diversity and ambiguity in the social world (Lewis 2000). Following Lewis (2000), paradox is both a guiding framework and the subject of inquiry in this study. *The New Fontana Dictionary of Modern Thought* defines paradox as a statement that has contradictory consequences (Bullock & Trombley 1999). A paradox explores the tension between two extremes or opposite positions as a first step towards synthesis (de Wit & Meyer 1994; Selznick 1996; Lewis 2000). As Selznick (1996) argues, dichotomies are pernicious, but are a first step to reconciliation. Identifying tensions as paradoxes reveals complex interrelationships that have to be managed (Lewis 2000).

As Poole & van de Ven (1989) explain, paradoxes in management theory are social rather than logical. In philosophy, logical paradoxes are about inconsistency in premises and assumptions. Social science paradoxes are inconsistencies in observation and interpretation of the real world. Paradox is used to identify different conceptualisations of organisations and social systems (Poole & van de Ven 1989). In this view each theory is an alternative or partial view of a multifaceted reality. In this study, social paradox offers a way of dealing with the contrary propositions and contradictions in management theory and practice.

Identifying the tensions in management theory is the first step in explaining the practical difficulties encountered striving for balanced reporting. In reporting on quality, managers must find ways of dealing with four social paradoxes that originate in management theory, and these are summarised in Table 1.1 in Chapter 1. The social paradoxes reflect ambiguity in the concepts of accountability, performance, service and clients. These social paradoxes create a quality conundrum that has practical consequences for performance reporting. The paradoxes are recognised, some more explicitly than others, in the official documents that are the basis of this study.

Quinn (1988) argues that, by exploring paradox researchers can move beyond oversimplification to recognise the complexity, diversity, and ambiguity of organisational life. Paradox has been studied in public and strategic management (Quinn 1988; de Wit & Meyer 1994; Handy 1995; Gupta & Meyer 1995; Dobuzinskis 1997; Patterson 1998). However, studies that explicitly concentrate on paradox are scarce (Lewis 2000).

3.5 Selecting the cases

Case studies in public management are 'critical experiments' (Allison 1980, 298) that are used for theory testing and explanatory research (Yin 1994). Comparative analysis necessarily sacrifices some of the depth of analysis in a single case to focus on similarities and differences between cases. The purpose of this study is to investigate the consequences of transferring quality standards and indicators from business to professional public services. Two case studies were selected to investigate contrasting accountability and quality improvement techniques.

The Review of Commonwealth/State Service Provision (Review) and Commonwealth Government Service Charters (Service Charters) are different accountability mechanisms and quality improvement techniques. Both rely on performance reporting for accountability and quality improvement. Quality is defined by the SCRCSSP in performance indicators and associated measures used in annual reports to COAG for the Review. Quality is defined by agencies in service standards in Service Charters Charters and associated information provided in reports to Parliament. The purpose of the cases is to compare how quality is defined in standards and indicators, and to compare information on quality selected for performance reporting. Interest is in quality for professional public services.

The first case examines quality indicators and measures in performance reporting by the PC acting as the secretariat for the SCRCSSP. The Review is a cooperative development between the Commonwealth, State and Territory governments. Efficiency and effectiveness indicators have been developed to benchmark the performance of 'social infrastructure services'. The accountability mechanism is benchmarking results and performance reporting is external. Quality is a measure of effectiveness, defined as 'conformance to standards' and 'fitness for purpose'. The significance of this case study is the unprecedented scale and scope of quality indicators.

The second case examines quality standards in Service Charter in the APS, introduced by the Howard Government in 1997. All Commonwealth agencies dealing with the public are required to publish a charter of service quality standards, in consultation with clients, and to monitor and report on performance in their annual reports to parliament. The accountability mechanism is a service guarantee and performance

reporting is internal. Service quality is defined as 'customer service' (Ellison 1999, 2). The significance of this case study is the systematic implementation of complaint mechanisms. In the absence of choice between competing service providers, consumers rely on complaints and appeal mechanisms to voice dissatisfaction.

From the analysis in Part I (Chapters 2 to 5), three questions are identified for investigation in the cases:

1. Who is accountable for quality?
2. How is quality defined?
3. What is the evidence of quality in performance reporting?

3.6 Selecting the evidence from policy and implementation guidelines

Triangulation of evidence of the path of change in section 2 of each chapter is a synthesis from official and academic sources (Davis *et al* 1999, 13). A chronology of the key events is provided in Appendix D. Speeches, reports and implementation guidelines offer official explanations and normative justification for decisions (Davis & Rhodes 2000). Triangulation of evidence of the transfer of ideas from business and economics in section 3 of each chapter is also a synthesis from official and academic sources (Davis *et al* 1999). The primary sources of evidence in this study are the documents listed in Appendix E. These include official reports, key speeches, policy statements and implementation guidelines from 1976 to 2001.

The cases investigate the definition of quality and information selected for performance reporting, so the primary sources of evidence are also official documents. The primary sources of evidence for the first case are the *Reports on Government Service* (SCRCSSP 1995, 1997a, 1998a, 1999, 2000a & 2001). The primary sources of evidence for the second case are guidelines (DIST 1997b; 1997c; MAB-DIST 1997), agency charters and annual reports, and two whole-of-government reports (Ellison 1999 & 2000).

The cases are narrative accounts based on evidence collected from the public record. Path dependency of change was investigated using historical institutional analysis. Any chronology is selective. Appendix D provides a chronology of events, institutions and ideas that have influenced the trajectory of reform. Institutional explanations of the

pattern of reform focus on the agents of reform (Pollitt 2001). Section 3 of each chapter, by analysis of selected documents, examines the institutions and ideas that have influenced reform (Rhodes 1998 & 2000). Appendix E lists, in chronological order, the primary Australian documentary sources. The sources of the documentary evidence selected include parliamentary committees, central agencies, departments and independent advisory agencies. The documents include White Papers, reports, policy statements, key speeches, implementation guidelines, best practice guides and performance reports. The evidence in these documents supports the analysis of the transfer of ideas from business to public management. OECD PUMA Documents that provide evidence of ideas circulated in an international policy community are in Appendix F.

Table B1: A Matrix Structure

| PART I | CHAPTERS | | | |
|---|---|--|--|---|
| SECTIONS | 2. Responsive Public Services | 3. The Metering Problem for Public Services | 4. The Quality Variables for Services | 5. Professional and Public Service Qualities |
| 1. Introduction | 2.1 Introduction | 3.1 Introduction | 4.1 Introduction | 5.1 Introduction |
| A view of quality from the top in Australia's federal system, for public services funded primarily by the Commonwealth, and provided by state, non-profit and private agencies. | Funding and delivery of public services in a federal system. New accountability mechanisms change performance reporting. | Purchase specified outputs to achieve policy outcomes. Quality is defined in standards and indicators. Information and measures for performance reporting. | Quality improvement techniques from business: 1. Accreditation 2. Benchmarking 3. Service charters | NCP links microeconomic and social policy reform Contracting links outcomes and outputs budgets to performance measurement for professional public services. |
| Language and concepts of performance management from business, and contracting from economics, have been applied to public services. | From 'administration' to 'performance management' and 'contracting'. 'market-type mechanisms' Separating purchasers and providers. | From 'process' to 'results' and 'outputs and outcomes' Efficiency, effectiveness and equity performance criteria for public services. | From 'client responsiveness' to 'customer service' Manufacturing and services are different management paradigms. | 'Social'/'welfare'/'human', 'social infrastructure' services have 'professional' and 'public' qualities. |
| Conflicting approaches reflect ambiguity in concepts. | Accountability for performance. Results AND responsiveness to clients. Control AND managerial autonomy. | Economic AND social value Productivity AND quality. Internal evaluation AND external audit. Qualitative AND quantitative information for reporting. | Service quality AND customer service. Different definitions of quality for services. | Responsiveness to clients as consumers AND as citizens. Consumer and citizen are different metaphors for client relationships. |
| Issues around transfer relate to definitions and relationships. | Public accountability – different relationships and mechanisms. | Public value – different metrics. | Services -- different relationship outputs and outcomes. | Professional - different relationship clients. Public – different process quality. |
| Three issues are raised: 1. Separating responsibility for quality 2. Specifying quality in standards and indicators 3. Selecting evidence performance reporting | Specifying quality in service agreements and contracts. Information on quality in performance reporting. There are multiple accountabilities and relationships are different for public services. | Specifying service outputs linked to policy outcomes. Standards and indicators Performance measures. Quality has a different relationship to value for public services. | Service process models specify technical and process dimensions for quality and measure outcomes. Quality imperative is different for services. | Quality standards & indicators for professional services. Process quality for public services. Professional public services are a difficult case. |

Table B1: A Matrix Structure

| Section 2 What has happened? | 2.2 A long march from Coombs | 3.2 Down the measurement road | 4.2 The quality crossroads | 5.2 The contracting super highway |
|---|--|--|--|--|
| <p>Path-dependent change: historical analysis identifies the timing and sequence of change.</p> <p>Three phases in reform:</p> <ol style="list-style-type: none"> 1. Administrative 2. Managerialism 3. Contractualism | <p>L'ancien régime 1972-83 Bureaucratic model of service delivery. RCAGA comprehensive blueprint for administrative reform Administrative law reforms.</p> | <p>Efficiency and effectiveness RCAGA recommendations blueprint for performance reporting not implemented.</p> | <p>Responsiveness to clients Admin law extended legal compliance to procedural fairness, access to information, complaints & review of decisions</p> | <p>A health and welfare mosaic Social policy in a federal system separates funding and delivery of social welfare services A purchaser-provider model with historical funding</p> |
| | <p>Managerialism 1983-1993 Performance management: Corporate planning PMB Devolution (separation policy & service delivery) Evaluation</p> | <p>'Managing for results' Systematic program evaluation & performance reporting to balance devolution. ANOA efficiency and performance audits. PPSs. Annual Reports.</p> | <p>Quality improvement agenda Devolution of management improvement to agencies No systematic quality improvement programs</p> | <p>Targeting funding and performance reporting Three imperatives:</p> <ol style="list-style-type: none"> 1. <i>Performance</i> – cost effective services 2. <i>Productivity</i> – efficient use of scarce budget resources 3. <i>Quality</i> – services appropriate to client needs |
| | <p>Contractualism 1993-2001 Financial control. Performance Improvement Cycle (PIC). Contracts and competitive tendering.</p> | <p>'Outcomes and outputs thinking' Outcomes & outputs budgets. Whole-of-government performance reporting. Performance indicators and measures. Performance reporting for COAG - benchmarking results (Case I) 1995+. Service Charters - service standards (Case II) 1997+.</p> | <p>Quality in customer service Quality in customer service package 1995. ANOA Performance audits. Performance reporting for COAG includes service quality and client views (Case I). Service Charters includes client consultation and complaint mechanisms (Case II). National accreditation schemes.</p> | <p>CCT for social welfare services NCP links microeconomic and social policy reform. IC report on 'social infrastructure' services and CTC. Performance reporting for COAG 1995+. Contracting extended to social welfare services.</p> |
| <p>A pattern is evident in changing accountability relationships, performance reporting mechanisms and service quality initiatives for social welfare services.</p> | <p>Performance monitoring has shifted from internal evaluation to external audit. Change in accountability from processes (rules & procedures) to results (performance).</p> | <p>Shift from internal to external performance reporting. Shift to performance measurement increases quantitative efficiency and effectiveness indicators. Shift to outcomes & outputs budgets & reporting.</p> | <p>Significant development in reporting on quality. Devolution of quality improvement initiatives to agency level.</p> | <p>Change in purchaser-provider arrangements for social welfare services. Funding shifts to outputs linked to outcomes. Contestable markets for service providers.</p> |

Table B1: A Matrix Structure

| Section 3 Why? | 2.3 The pragmatic Australian way | 3.3 'More than a new wrinkle' | 4.3 From manufacturing to services | 5.3 Contracting for care |
|---|--|---|--|---|
| Institutional analysis identifies the central agencies and the ideas that have shaped policy frameworks and implementation guidelines. A 'Troika' of the Audit Office, Finance and the PC have elevated the productivity imperative while quality improvement has been devolved to agencies. | DoF/DoFA (budget & resource management). ANOA (performance audit). IC/PC (microeconomic reform). MAB-MIAC (improvement service delivery). | DoFA PIC implementation guidelines. ANOA performance audits and best practice guides. PM&C Annual Reporting guidelines. MIAC and MAB best practice guides. | MAB-MIAC & DoFA & ANOA guidelines. DIST/Finance (Charters). Ombudsman (complaints). ACCC (consumer protection) Consultants. | NCoA and PC reports link microeconomic and social reform to financial reform. Contracting more widely applied to social welfare services than competitive tendering. |
| Ideas have circulated in an international NPM policy community facilitated by the OECD's PUMA, and policy transfer is evident in country case studies. Diversity is evident even in the NPM heartlands of Australia, UK, NZ, US and Canada. | <i>Managerialism</i> Business techniques. Best practice is in the private sector. | Performance management is an instrumental model that specifies, standardises and quantifies performance. Private sector benchmarks. Quantitative measurement. | Manufacturing and services management are different perspectives on the nature of quality, and its relationship to performance. | Purchaser-provider arrangements, outputs and outcomes funding, and customer service model applied to social welfare services. Benchmarking is 'yardstick competition'. Charter is a service guarantee |
| A pragmatic mix of ideas from economics and business is evident in evaluation reports, policy statements and implementation guidelines at the Commonwealth level in Australia. | <i>Economic rationalism</i> Principal-agent model governance relies on transparent performance reporting to overcome information asymmetry. | Metering (quantitative measurement) is a problem in contracting for public services. | Team production is a problem in contracting for services. | Information asymmetry in two relationships is a problem in contracting for professional public services |
| Broad application of principles of contracting and performance management. | Contracting service delivery that separates policy and service delivery. Market competition empowers consumers through choice. | Outputs and outcomes budgeting is a production process model that standardises and quantifies quality | Three different frameworks: TQM (customers perspective) TQS (process consumption) Service Profit Chain (value) | Customer service is process quality; Service profit chain is a market model of equity; |
| | Separate responsibility for policy (outcomes) and service delivery (outputs). Principals are responsible for outcomes and agents are responsible for outputs; | Specify and measure quality of outputs linked to outcomes against agreed objectives. | Specify standards and indicators for technical quality (reliability) and process quality (customer service). | Quality has different definitions Customer is ambiguous; Services defy precise classification; |

Table B1: A Matrix Structure

| Section 4 What are the consequences? | 2.4 A question of balance | 3.4 Wicked problems and contested values | 4.4 Three 'Quality Tribes' | 5.4 What's in a name? |
|--|---|--|--|---|
| Contracting and performance management frameworks assume a clarity that does not exist in theory or in practice. Conceptual ambiguity in management concepts is evident in conflicting agendas in policy 'talk'. | "Managing for results" has to balance control to "make managers manage" and autonomy to "let managers manage". Strategic and financial are different modes of control. Agency and stewardship are different models of governance. | 'Tin openers and dials' Internal reporting for evaluation and external reporting for audit. Efficiency and effectiveness criteria are defined in standards and indicators. Evidence is in quantitative measures and qualitative information. | Providers and customers have different perspectives on quality. Three perspectives on quality for services lead to different standards and indicators: 1. QA (attributes) 2. Customer perceptions (attitude) 3. Results (value) | Classification identifies sources of variability between services contexts. Professional public services are acknowledged as a difficult case. Professional public services have 'public' and 'professional' qualities. |
| Ambiguity is exacerbated when business concepts are transferred to the particular contexts of public services. A public/private dichotomy does not capture the complexity of transfer from manufacturing to professional public services. | Complex relationships between funders and service providers and multiple accountabilities. Confusion about means and ends of performance monitoring for public services. | 'Bottom line' for public services Complex links between service delivery outputs and public policy outcomes. Confusion about criteria and performance information for public services. Economic and social values Efficiency, effectiveness and equity criteria. | Production and consumption are not separate for services and provider-customer interactions in delivery affects quality. Confusion about nature of quality and its relationship to performance for services. | Information asymmetry between professionals and clients. Customer is ambiguous for public services (citizen voice and consumer choice). Confusion about client relationships and process quality for public services. |
| Four paradoxes create a 'quality conundrum' that has practical implications for balanced reporting. | Accountability: Responsibility & responsiveness | Performance: outcomes & outputs | Service: service quality & customer service | Client: consumer & citizen |
| Different definitions of quality in standards and indicators, and evidence selected change the balance in for performance reporting. | Responsibility for quality is shared: Funders (political) Managerial (delivery) Professional (providers) Client (consumers) | Relationship between productivity, quality and value is complex and contested for public services. | Quality has technical (reliability) and process (customer service) dimensions for services. | Clients are consumers with needs and wants, and citizens with entitlements and rights to fair processes. |

Table B1: A Matrix Structure

| 5. Conclusions | 2.5 Conclusions | 3.5 Conclusions | 4.5 Conclusions | 5.5 Conclusions |
|--|--|---|--|--|
| In theory quality standards and indicators increase accountability of service providers and responsiveness to clients. | Political responsiveness for accountability for performance (policy outcomes), and client responsiveness for improving service delivery, are different ends. | Specify and measure quality outputs linked to outcomes. | Specify and measure technical and process quality of service outputs linked to outcomes. | Specify and measure technical and process quality of service outputs linked to democratic processes and social policy outcomes. |
| In practice ambiguous concepts and complex transfer creates accountability traps that limit responsiveness to clients. | Complex accountability matrix for public services creates gaps in performance reporting. | Outputs and outcomes are different measures of results. | Service quality and customer service are different measures of service delivery (outputs). | Consumer and citizen are different definitions of client relationships. |
| Two problems: 1. different definitions of quality from management 2. asymmetric information in funder-provider and professional-client relationships | Contracting increases separation of purchasers and providers. | Complex links between outputs and outcomes. Quality is defined in standards and indicators. Quality is reported in quantitative measures and qualitative information. | Certification, accreditation, benchmarking, TQM, business excellence models, and customer service standards provide different information about quality. | Funders have information about policy outcomes. Providers have information about service outputs. Professionals have information about technical quality. Clients have information about process quality. |
| Questions for the cases: 1. Who is accountable for quality? 2. How is quality defined in standards and indicators? 3. What is the evidence of quality in performance reporting? | Who is accountable for quality? Funders (purchasers) Service providers Professionals Clients | How is quality defined and reported? Outputs Outcomes Quantitative measures Qualitative information | How is service quality defined and reported? Reliability (technical quality) Customer service (process quality) Customer perceptions Results | How is quality defined and reported for professional public services? Customer service (convenience and timeliness of service delivery). Equity of access (complaint & redress). |
| | Accountability story Separation and external reporting. | Performance story Standardisation and quantification of quality. | Devolution story Different definitions of quality. | Contracting story Imperative for client responsiveness is voice and regulation for professional public services. |

Table B1: A Matrix Structure

| PART II | | | |
|--|---|--|--|
| SECTIONS | 6. Performance Reporting for COAG: 'Doing more with less' | 7. Commonwealth Government Service Charters: 'Doing it nicer' | 8. Counting Quality or Qualities that Count? |
| 1. Introduction | Performance indicators and measures for social infrastructure/human services funded by Commonwealth, State and Territory Governments (The Review). | Client/customer service standards and complaint mechanisms for APS agencies dealing with the public. | Cases are 'bookends'. <i>The Review</i> : monitoring results using indicators and quantitative measures. <i>Charters</i> : auditing compliance with standards and reporting qualitative information. |
| 2. What's happened? | 6.2 A performance measurement story | 7.2 A service standards story | 8.2 The elusive search for balance remains |
| 1. Who is accountable for quality? 2. How is quality defined? 3. What is the evidence of quality in performance reporting? | SCRCSSP 1994+ Performance indicators and measures to benchmarking results. Quality is defined in indicators and measures Independent external reporting. | DIST 1997-1999 DoFA 1999-2001 PSMC 2001+ Service standards and complaint mechanisms. Quality is defined in standards. Whole-of-government reporting Internal agency reporting. | Separation: accountability traps. Specification: different definitions of quality. Reporting: gaps in information and measures. |
| 3. Why? | 6.3 Benchmarking results | 7.3 Service guarantees and complaints | 8.3 The limits of managerialism and contractualism |
| Institutional analysis reveals agencies and ideas that have shaped the approach to reporting on quality. | SCRCSSP/PC Benchmarking results is 'yard stick competition'. Transparent indicators improve accountability and quality. | DIST, DoFA, PSMPC Implementation of service charters devolved to agencies. Service guarantees improve client responsiveness. Service Charter Awards promote excellence. | Australian experiment reveals the limits of a production process and a customer service model of quality for professional public services. Separation outputs and outcomes in production process model. Weak customer service imperative for budget constrained public services. |

Table B1: A Matrix Structure

| 4. Consequences? | 6.4 A work in progress | 7.4 From pillar to outpost | 8.4 Consequences of selection in performance reporting |
|--|---|---|---|
| <p>Concepts and frameworks assume a clarity that does not exist in practice.</p> <p>What are the implications of gaps in reporting?</p> | <p>Broad application to professional public services.</p> <p>Significant development of indicators, measures and reporting.</p> <p>Variation between service frameworks</p> <p>Institutionalises measurement.</p> | <p>Limited application to professional public services.</p> <p>Limited development of service standards and reporting.</p> <p>Variation between agency charters.</p> <p>Institutionalises complaints but not redress.</p> | <p><i>Governance:</i> trust and risk management</p> <p><i>Policy:</i> evidence for policy coordination and evaluation.</p> <p><i>Service delivery:</i> balance productivity and quality.</p> |
| 5. Conclusion | 6.5 Conclusions | 7.5 Conclusions | 8.5 Conclusions |
| <p>In theory quality standards and indicators increase accountability of service providers and improve responsiveness to clients.</p> <p>In practice gaps in performance reporting limit accountability of service providers and responsiveness to clients</p> | <p>Performance reporting for COAG increases quantitative information about quality of outputs, outcomes and client perceptions.</p> <p>Limits production process model for professional public services</p> | <p>Client service charters increase information about the quality of service processes and complaints.</p> <p>Limits customer service model of process quality for public services.</p> | <p>There is more information about quality but there are gaps in reporting.</p> <p>Different definitions of quality and the particulars of contexts are reflected in variation in quality standards and indicators.</p> |

APPENDIX C

CLASSIFYING PUBLIC SERVICES

1. Introduction

The research question asks what are the consequences of transferring quality standards and indicators from business to professional public services. Transfer is affected by the specific context and the generic attributes (Rose 1993). The particulars of different services contexts, as well as the generic attributes of quality improvement techniques, affect the transfer of techniques from business to public services (Rose 1993). In contrast to most research studies that examine differences between public and private sectors or agencies, interest in this study is in the transfer of quality improvement techniques from business to public *services*. Therefore the focus in this study is on the generic attributes of quality and on the specific context of professional public services.

Classification identifies the distinctive characteristics of a class. The purpose of classifying public services is to gain a better understanding of the problems in specifying and reporting on quality. A major difficulty encountered in this study is that public services elude precise classification. Interest in this study is in *professional public services*, not the public sector or public agencies. The class identified for this study is *professional public services*, not the Australian Public Service (APS) or public agencies. The problems in defining and reporting on quality arise from the 'public' and 'professional' characteristics of these services. This Appendix explains how this classification was derived. Publicly-funded services are the focus of this study.

Section 2 explains the approach to classification in this study. Classification identifies the sources of variability and the distinctive characteristics of a particular class. A theoretical classification of public services is used for definitional clarification (Arndt 1982) in this study, to gain a better understanding of the problems in defining and reporting on quality for public services. Changing the focus from public *agencies* to public *services* is a fundamental analytical shift in this study, which is based on a typology of services that identifies professional public services as a distinctive class.

Section 3 considers two dichotomies that shape debates about the transfer of quality improvement techniques to public services. The transfer of ideas about quality improvement is not captured in a public/private dichotomy. On the 'private' side, manufacturing and services process models are different perspectives on quality, applied to public services. On the 'public' side, markets and policy processes are different perspectives on client responsiveness. Changing from dichotomies to continua for classification is another fundamental analytical shift in this study. Existing classifications from the public management and services management literatures offer insights into the characteristics with implications for defining and reporting on quality.

Section 4 identifies the characteristics of 'professional public services' with implications for defining and reporting on quality. Different classification schema for public services are reflected in the variety of labels used to differentiate health, education and community services from other public goods and services. Various described as complex, human, social infrastructure or welfare, these services are classified as 'professional' in services management. These are in essence human services, primarily funded by government, delivered by professionals in complex networks of public, private and non profit agencies. The problems in specifying and reporting on quality for these services arise from their 'professional' and 'public' and 'service' characteristics.

2. A typology, not a taxonomy: the particulars of services context

A classification scheme is a prerequisite for systematic study to facilitate experimentation. Classification is one way of understanding diversity and is fundamental to scientific inquiry. Social scientists also use classification schema to facilitate comparative research. The suitability of any classification depends on the purpose. What is required for this study is a classification scheme that identifies the dimensions that are significant for specifying and reporting quality. CTC has changed the location of many public services on a public-private provider continuum, but this does not change the public nature of these services (Quiggan 1999). Public management classifications focus on tasks and agencies rather than services. Services marketing and management classifications focus on product, process and consumer behaviour attributes, but generally ignore 'public' characteristics.

Classification is an artificial method for understanding diversity and enunciating general propositions or characteristics common to a class (Darwin, Mentor Edition 1958, 385). Typology and taxonomy are different approaches to classification. A taxonomy consists of mutually exclusive categories, that leads to classification by selecting one box. Simple taxonomies (Pettigrew 1993) are public/private, economic/social value, manufacturing/services and customers/citizens. The forward slash, for example in 'public/private', signals a dichotomy that presents mutually exclusive groups. In contrast a typology based on continua, for example 'public-private', signals a more diverse range of possibilities – shades of grey rather than black and white.

The traditional approach to comparative research in public management is to use industry, sector and agency classifications. Each of these offers partial insights into the sources of variability. The issue for this classification in this study is to identify the key sources of variability that have implications for specifying and reporting quality. 'Professional' attributes are recognised in the services marketing and management literatures, and 'public' attributes are recognised in the public management literature.

'Industry' is a generic term used to refer to groups of organisations or enterprises that are classified according to their primary activity. The Australian Standards Industry Classification (ANZSIC), used by the ABS, classifies services on an enterprise basis. Health, education and community services are classified as separate divisions or sectors. ANZSIC Divisions N Education and Division O Health and Community Services include public and private enterprises. Private agencies, for profit and non-profit, contract with governments to deliver public services including employment and training programs, prison management, child care, health, and community care programs. Industry and sector classifications are useful in identifying 'industry' and 'system' characteristics.

1. 'Sector' is a variation on industry classifications of agencies or enterprises. Sector classifications highlight differences in ownership, the way activities are funded and their purpose. The key variable is ownership resulting in a simple public-private dichotomy. Hughes (1994) suggests four fundamental characteristics that affect the way the public sector can be managed:
2. decisions may be coercive,
3. different forms of accountability apply,

4. an outside agenda is set by political leadership; and,
5. there are difficulties in measuring productive efficiency.

The concept of a distinctive public sector is an old debate (Allison 1979). However, sectors of activity are increasingly difficult to separate (Lynn 1996). As a consequence of contracting, outsourcing and privatisation there are no longer clear boundaries between the public and private sectors (McGuire 1994, Davis & Wood 1998). The issues are boundaries and relationships.

Variations in funding and purpose introduce a 'third sector' consisting of what are variously described as 'nonprofit', 'voluntary' and 'community sector' agencies (Lyons 2001). However, with the growth in contracting of public service delivery to private agencies, the boundaries between sectors are less distinct. Publicly funded services health, education and community services are provided by government, community sector and private agencies. Management classifications highlight organisational characteristics. Public services are classified from management (Flynn 1993; Allison 1979; Perry & Kramer 1983), marketing (Crompton & Lamb 1986; Fine 1992) and economic perspectives. Managerial classifications, that highlight organisational variables, identify differences in purpose and relationships with users. Marketing classifications highlight products and identify differences in consumer behaviour variables. Economic classifications highlight variations in the market structures and the mode of exchange.

Typologies that distinguish public and private goods are derived from public economics (Osborne & Gaebler 1992; Stretton & Orchard 1994). Four types are usually recognised (Hughes 1994):

1. Public goods that are not supplied by markets because there are no individual property rights and the benefits accrue to the entire community. Defence and quarantine services are the most common examples.
2. Merit, common or collective 'goods' which are socially desirable. Individual property rights exist, but markets would under supply the community without government provision. Health and education are the most common examples.
3. Natural monopolies such as water and electricity.
4. Private goods that are exchanged in contestable markets.

Public, merit and private goods are ordered and allocated in different ways and this classification highlights the difference between individual and collective choice.

Traditional approaches to identifying the characteristics of public services are welfare economics and political theory (Pollitt 1988, Orchard & Stretton 1994). Welfare economics concentrates on market failure, resulting from the indivisibility or non-excludability from consumption, of the benefits of 'public goods', and from positive externalities or damage from negative externalities. Typologies based on product classifications from public economics (Osborne & Gaebler 1992; Hughes 1994; Stretton & Orchard 1994), make no distinction between tangible goods and services. Economists use the concept of 'goods' to include tangible goods and services. Marketing uses the concept of 'products' to include tangible goods and services, but does draw distinctions between these in product classifications (Shostack 1977; Zeithaml 1981).

Political theory concentrates on public policy processes to achieve social outcomes, and citizen participation and voice are means by which governments achieve ends. Walsh (1991b) argues that collective rather than individual choice, citizenship not consumer sovereignty, collective action not individual choice, and voice as the condition not exit as the stimulus, are the distinctive characteristics of public services. Public agencies have the distinctive task of exercising the coercive powers of the state: 'They order, inspect and control' (Stewart & Walsh 1992). Hughes (1994) suggests four fundamental characteristics that affect the way the public sector can be managed:

1. decisions may be coercive,
2. different forms of accountability apply,
3. an outside agenda is set by political leadership; and,
4. there are difficulties in measuring productive efficiency.

Classifications from the public management literature are useful in highlighting dimensions on public-private continua, in particular the purpose. However, it has been argued that there as much diversity within the public sector between public agencies and public goods as there is between the public and private sector (Carter, Klein & Day 1992). This diversity is explained by shifting the focus from sectors and agencies to manufactured goods and services. In economics, the concept of a 'good' includes

manufactured goods and services. In marketing the concept of a 'product' includes manufactured goods and services.

Services marketing and management classifications focus on product, process and consumer behaviour attributes, and use manufactured goods as a reference point (McGuire 1999 Chapter 3). Silvestro *et al* (1992) identified three types of delivery systems based on the nature of the service processes. Different types of services processes require different performance measures.

Services management classifications highlight processes (Schmenner 1986; Silvestro *et al* 1992). Services marketing classifications highlight strategic variables (Lovelock 1980). Normann (1991) identifies two types of services based on provider-customer coproduction. 'Providing relationships' are characterised by limited coproduction, whereas, 'enabling relationships' have high coproduction. Two sources of variability, with implications for specification and evaluation of service quality, emerge from these classifications. The first is the extent of customisation or standardisation of service delivery, and this has implications for efficiency and service quality. The second is the role of the consumer in service delivery, and this has implications for outcomes. Walsh (1991a) used information asymmetry between service providers and consumers to identify four categories with different abilities to specify and assess quality. This has implications for the ability to contract, and for performance evaluation.

These classifications are useful in highlighting 'service' dimensions with implications for specifying and reporting quality. Services marketing and management classifications that distinguish public and private services tend to do so on the basis of marketability and identify a profit/nonprofit dichotomy.

3. Continua, not dichotomies: 'shades of grey'

Two dichotomies frame debates about the transfer of business techniques to public services. The public/private debate is about the transfer of concepts and techniques from economics and business to the public sector and agencies. This debate originated in the public management literature (Allison 1979). The manufacturing/services debate is about the transfer of a production process model of performance management to services. This debate originated in the services management literature. Professional public services connect these debates. The issue is the particulars or

differences between *services*, and the issues around transfer are not captured in a public/private dichotomy.

Two fundamental debates complicate the study of the transfer of business techniques to public services. The first, which can be described as the public/private debate, is about the transfer of market mechanisms and business techniques to public services. The origins of this debate are in the public management literature. The second, which can be described as the manufacturing/services debate, is about the transfer of production process models to services. The origins of this debate are in the services management literature.

3.1 Public and private contexts (Chapter 3)

In what is now considered a classic treatise in public administration, Allison (1979) invoked Sayre's axiom to argue that business and government are alike in all unimportant respects. The debate is about the application of generic or universal principles to public and private sectors, agencies and services. The issues are the universality of management principles and the nature of relationships between providers and clients of public services.

The 'public-private realms are different/similar' debate is usually framed in terms of sectors or organisations. This leads to contrasts such as Stewart & Ranson's public and private *sector* models of provision (Stewart & Walsh 1992). However, contractualism shifts the focus from organisations to *services*. Professional public services are funded from the public purse, but are provided or delivered by public, non-profit and private agencies. An organisational focus is confusing. The issue is the transfer of quality management techniques to *professional* services and on to *public* services. 'Quality is universal/particular for *services*' is one part of the debate. 'Quality is universal/particular for *public services*' is another.

Critics as early as Allison (1979) and more recently Mintzberg (1996), argue there are limits in applying business principles and associated techniques to the public sector. This study clarifies the debate by shifting to public services. Purchaser-provider arrangements and contracts for service delivery with private agencies blur the public/private distinction based on ownership (Younis *et al* 1996), but not the distinctions based on public/private purpose and public/private accountability. The issue

in this study is the relevance of the public/private distinction for measuring and reporting quality.

Differences in purpose and accountability are significant in examining the transfer of techniques for specifying and reporting quality from private to public services. None of these public management classification schemes successfully reduces the complexities of public services to a manageable set of characteristics. However, a 'public-private' continuum is generally recognised (Wettenhall 1983).

3.2 Manufacturing and services contexts (Chapter 4)

Service has a diversity of meanings that leads to ambiguity about the nature of quality, and confusion in selecting indicators and measures (Johns 1999). Manufacturing and services are different management paradigms that are applied to public services (Gummesson 1994). Production, consumption and product are manufacturing concepts (Grönroos 2001). None of the service classification schemes has successfully reduced the complexities of producing and consuming services to a manageable set of characteristics (Bebko 2000). However a manufacturing-services continuum is recognised. Differences in processes are significant in the transferring of techniques for quality management from manufacturing to services.

The first issue is the significance of a manufacturing/services dichotomy for specifying, measuring and reporting quality. The argument is that professional public services are located at 'service' end of the tangible dominant goods-intangible dominant continua. Three attributes of 'professional' services explain the problem in specifying and measuring quality. Professional services are characterised by information asymmetry between providers and clients, require active participation by clients in coproduction and have a high level of encounters between professionals and clients in delivery.

The second issue is the significance of public/private dichotomy for defining and reporting on quality. As Gregory (1995) argues public services are rich mixtures defy classification in a sterile dichotomy. Therefore continua are more useful than mutually exclusive categories. Professional public services are located at the public end of a 'public-private continuum', and at the service end of a manufacturing-services continuum. Public management classifications do not take into account the 'service' characteristics that are significant for specifying and reporting quality. Service

classifications do not take into account the 'public' characteristics that are significant for specifying and reporting quality.

The next section identifies the attributes of professional public services that are significant for selecting standards and indicators to monitor quality.

4. Professional Public Services: 'a bit of this and a bit of that'

The class identified for this study is *professional public services*, not the Australian Public Service (APS) or public agencies. The problems in specifying and reporting on quality for this class arise from their 'professional' and 'public' and 'service' and 'professional' characteristics. The implications of these attributes for specifying and reporting quality are summarised in Table C1, located at the end of this appendix.

4.1 Public service characteristics (Chapter 3)

'Public' is derived from the Latin word for people. An extensive literature on the differences between public and private management has resulted in typologies that identify distinctive characteristics (Perry & Rainey 1988, Stewart and Walsh 1992). Distinctions are between the public and private sectors and enterprises or agencies, rather than services. Public and private sectors relate to spheres of activity. The variables or dimensions most commonly for classification are ownership, funding and mode of control (Perry & Rainey 1988). However, diversity on each of these dimensions within the public and private sectors has lead some writers to argue that diversity within each sector is more significant than differences between the sectors (Carter, Klein & Day 1992).

The impact of CTC has been to break down traditional classifications of public and private enterprise. Distinctions based on ownership of providers, product characteristics, means of exchange and mode of delivery no longer apply. Public services are not distinguished by the ownership status of service providers (Fine 1992). Agencies from all three sectors are involved in the delivery of public services. The range of services funded by government and the delivery mix are increasing. Market and hierarchical delivery structures do not distinguish public and private enterprises.

Common, Flynn and Mellon (1992) examined market-type relationships and recognised a contestability continuum from purchaser-provider contracts at the low end, through

competitive tendering, to competition and client choice at the high end. These are different competitive conditions and contracting contingencies. Walsh (1995) has recognised a continuum of public provision models, from quasi markets and contracting through to direct provision, depending on the reliance on choice or voice. Shand & Arnberg (1996) examined different client-supplier relationships and recognised a continuum of client involvement and discretion in service delivery. This involvement varies from information at the low end, through consultation, partnership and delegation, to control at the high end.

Social value, collective decisions and public accountability are 'public' characteristics that change the nexus between costs, quality and value, and this requires a different approach to performance reporting. This explains problems in applying measures of service quality from business to public services. These characteristics, and the implications for monitoring quality of these public characteristics, are discussed in Chapter 3 and summarised in Table 3.3.

4.2 Service characteristics (Chapter 4)

Services developed as a distinct perspective within marketing in the 1970s, from marketing strategy and techniques for industrial marketing (Brown et. al. 1994). In management, services developed as a distinct perspective from manufacturing (Grönroos 1994a). Production, consumption and products are manufacturing concepts (Grönroos 1998). Services management starts from a fundamentally different perspective on process and its relationship to performance (Johns 1999). Productivity and service quality are key drivers of performance in both paradigms. However, quality and productivity are different for services, and the relationship to customer satisfaction and profitability is more complex because of provider-consumer interactions in service delivery. Quality is a key driver of customer satisfaction, retention and profitability, but the precise nature of the relationship is not understood (Zeithaml 2000).

Services are the interface between marketing and management, and there is considerable diversity in what is now a vast literature on the subject. Services is not a well-defined area, reflecting a range of approaches with different emphases on economics, marketing and management (see McGuire 1999 Chapter 2). The field divides into services marketing and services management, with the Nordic school combining the two approaches (Brown et. al. 1994; Grönroos 1994a). This diversity of

approaches creates a selection problem for public service providers looking for strategies and techniques to improve service delivery.

None of the service classification schemes has successfully reduced the complexities of producing and consuming services to a manageable set of characteristics (Bebko 2000). Nevertheless, three sources of variation in services contexts that are significant for specifying and reporting on quality can be identified from services management classifications (see McGuire 1999 Chapter 3).

Shostack (1982) examined intangibility of the core service and the implications for specifying quality standards and the reliability of core service task. Zeithaml (1988) examined the implications of variations in search, experience and credence attributes for specifying and evaluating service quality. Silvestro *et al* (1992) examined service processes on six continua and identified professional services as one of three variations. At the one end of the continuum are mass services where delivery is product-orientated, standardised and low contact. Professional services are at the opposite end, where process rather than product-oriented, customised rather than standardised and high on provider-client contact. Performance measurement is more difficult for professional than mass services. Smith & Freidman's (1994) Consumer Oriented Service Matrix identifies the implications of variation in the customer-consumer nexus for traditional measures of customer or client satisfaction.

Three characteristics of services that make defining and measuring quality inherently more difficult are summarised in Table 4.2 in Chapter 4. In contrast to tangible products, service outputs are intangible processes that are experienced by consumers. Production and consumption are not separate, and services create value in delivery processes that are experienced by consumers. Direct interactions between providers and clients in service delivery affect the costs and quality of outputs. These characteristics, and the implications for monitoring quality of these public characteristics, are discussed in Chapter 4 and summarised in Table 4.2.

4.3 Professional public service characteristics (Chapter 5)

All services are not the same and professional services pose particular challenges for marketing (Maister 1993; Kotler & Bloom 2002). Locating professional services on intangibility, coproduction and client-provider encounters continua identifies

marketing issues (McGuire 2003a&b). Professional services offer care and advice, and are delivered by people with specialist knowledge and technical qualifications. As a class, professional services are generally customised rather than standardised, require active participation by clients, and have a high level of face-to-face encounters. Professional providers have a different perspective on relationships and usually describe their customers as clients, signalling trust relationships and a duty of care. Professionals are regulated by standards and codes of conduct that are used to signal technical quality (Kotler & Bloom 2002).

A high degree of uncertainty about quality and value increases the gap between providers and clients, and poses particular marketing challenges (Kotler & Bloom 2002). Professional-client relationships are characterised by information asymmetry arising from high 'credence attributes' (Zeithaml 1981). This means providers have information about technical quality that clients cannot evaluate. Clients have more information about process quality or 'customer service' aspects of delivery. Signalling quality and value to attract clients, and delivering quality and value to maintain client relationships, are strategic imperatives.

An impediment to client responsiveness is the power of professionals that derives from their specialist knowledge (Pollitt 1988). Professional accreditation and service guarantees are strategies to reduce uncertainty for clients. Monitoring client satisfaction and complaints are strategies to reduce the gap between provider and client perceptions. Marketing management issues centre on the divergence between provider and client views on service delivery, quality and value.

Health, education and community services are the interface between public, non-profit and private sectors. Classified as social welfare by ACOSS (1997) and social infrastructure by the IC/PC (IC 1995b & PC 1998c), these services are classified as 'professional' in services management and marketing. 'Professional' signals that delivery is process rather than product-oriented, customised rather than standardised and high on provider-client contact (Silvestro *et al* 1992). Housing, postal, telecommunication and income support services are classified as a 'mass' service where delivery is product-orientated, standardised and low contact. Performance measurement is more difficult for professional than mass services.

According to *The Shorter Oxford English Dictionary on Historical Principles* (1944, 1680), 'profession' is from the Latin *professio* which means a public declaration. This highlights the important ethical dimension of professional conduct. The Australian Council of Professionals has adopted a comprehensive definition (ACP 2001):

A profession is a disciplined group of individuals who adhere to ethical standards and uphold themselves to, and are accepted by the public as possessing special knowledge and skills in a widely recognised body of learning derived from research, education and training at a high level, and who are prepared to exercise this knowledge and these skills in the interests of others.

It is inherent in the definition of a professional that a code of ethics governs the activities of each profession. Such codes require behaviour and practice beyond the personal moral obligations of an individual.

The Australian Bureau of Statistics (ABS) groups professionals by occupation. Professionals have a high degree of specialist training, and specific qualifications and certification are often mandatory for occupational work. There are two parts to professional standards – qualifications to practice and codes of conduct. A mixture of professional bodies, legislation and independent certification authorities set standards and codes of conduct. The Australian Medical Association and the Law Council of Australia, for example, control professional standards and certification for doctors and lawyers respectively. In contrast, state governments control certification of teachers and nurses, based on tertiary qualifications.

However there is still little agreement on which services are professional (Thakor & Kumar 2000). Professional services, it is generally agreed, offer care and advice and are delivered by service workers with specialist knowledge and technical qualifications (IC 1995; Harvey 1996). Professional services are distinguished by special qualifications of the provider to solve problems (Gummeson in Lapierre 1997).

Professional services are high on credence attributes, require active participation by consumers in coproduction, and involve direct personal encounters with professionals in delivery, and this requires different quality measurement methods (Silvestro 1997). The characteristics of professional services that create problems for monitoring quality relate to their relationships with clients. Professional services usually require a high degree of customisation and have personal client contacts in delivery (Maister 1993).

Consequently management principles from industrial or mass consumer marketing, based on standardisation of outputs and supervision, are "not only inapplicable but may be dangerously wrong" (Maister 1993, xv). Reflecting on extensive consulting experience, Maister (1993) recognised that managing professional services is 'a question of balance'. Signalling quality to clients, and balancing professional and client views on quality, are particular challenges (Maister 1993; Kotler & Bloom 1984).

Professional services are high on 'credence attributes', which means providers have information about technical quality that clients cannot evaluate. Clients have more information about process quality or 'customer service'. For example, aged care residents and their families cannot judge the technical expertise of medical professionals and focus more on what Walsh (1995, 247) refers to as the 'hotel aspects of service' – courteous staff, palatable meals and clean wards. Consequently reporting on quality requires a balance of provider standards and client satisfaction and perceptions. Credence attributes of professional services also means it is difficult for clients to specify their needs (Nelson 1975 & Darby & Karni 1973 in Zeithaml 1978). Professionals' duty of care to their clients is controlled by professional standards.

Coproduction increases the complexity of professional service delivery (Silvestro et. al. 1992). Separating inputs and standardising outputs (processes) is difficult because of the active role of consumers in delivery, and discretionary judgement on the part of providers (Harvey 1996). Consumers as coproducers have an active role in service delivery and are usually present for much of the duration. People are processed in human services such as education, health and community services. The motivations and willingness of customers to participate in service delivery affect the quality and productivity of outcomes. Professional services are generally high contact, and provider-client encounters are between people. There is a high degree of customisation and judgement on the part of providers (Silvestro et. al. 1992). Professional service providers usually describe their customers as clients, signalling a duty of care.

Professional services are complex (Czepiel 1990 & Crosby 1991 cited in Lapierre 1997). The links between processes, outputs and outcomes are complex for human services. There are often many activities and agencies in the delivery system. This makes the specification of service quality standards and indicators difficult. Human services require clients to be present during delivery, and usually take an active role in

coproduction. There is a high degree of interaction between providers and users, and the quality of outcomes depends on the participation of users.

Defining and reporting on quality is more difficult for professional services because of information asymmetry and the interactions between providers and consumers in service delivery. Providers and consumers have different perspectives. Evaluation by users tends to focus on process or the way the service is provided, while providers tend to focus more on the technical quality of what is delivered. Balanced reporting requires standards and indicators that reflect both professional and client views.

APPENDIX D

CHRONOLOGY OF EVENTS

Two explanations of the pattern of reform are path dependency of historical events and institutional theory. Path dependency emphasises the timing and sequence of change (Davis & Rhodes 2000; Pollitt 2001) and requires historical analysis (Pierson 2000). Institutional explanations focus on the agents of reform (Pollitt 2001). Chronology is used to identify the timing and sequence of change. This appendix provides a chronology of election cycles, structural change in portfolio responsibilities, microeconomic and social policy changes, and financial and management reform at the Commonwealth level. The evidence in this chronology supports the contextual analysis in Section 3 of Chapters 2 to 5, and in the cases in Chapters 6 and 7.

The election dates refer to the polling date. For more detail on the explanatory variables selected in this chronology, see the following:

- Election cycles, Prime Ministers and Ministries (Parliamentary Library 2000)
- Microeconomic reform (Quiggin 1996a; Argy 1998)
- Social policy reform (Evatt Foundation 1996; Argy 1998; Druckett & Swerrissen 1996; Lyons 2000)
- Structural change in the APS (Davis, Weller, Caswell & Eagan 1999; Nethercote 1999 & 2000)
- Financial and management reforms in the APS (Wanna, Kelly & Forster 2000)
- Chronology of reform in the APS (Verspaandonk 2000)

Appendix D Events

| TIME | EVENT | SIGNIFICANCE |
|------------------|--|--|
| 1901 | Federation Australian Constitution | Established the Commonwealth Government with control of customs and excise revenue. Section 96 of the Constitution allowed the Commonwealth to make conditional grants to the states. Established the Commonwealth (later Australian) Public Service (Hughes 1998). |
| | Audit Act 1901 | Established the Office of the Auditor General. |
| 1902 | Public Service Act 1902 | |
| | Public Service Act 1922 | |
| 1933 | Commonwealth Grants Commission Act 1933 | Established Commonwealth Grants Commission (CGC) to advise on claims by the states for financial assistance (special grants) under Section 96 of the Constitution. (Hughes 1998). |
| 1942 | High Court decision - Uniform Tax Case | Commonwealth acquired sole responsibility for income tax collection. Introduction of uniform income taxation increased Commonwealth and reduced state revenue raising capacity. Consequently state expenditure is financed by large payments from the Commonwealth (Hughes 1998). |
| 1972 December | Election Whitlam Labor Government | First Labor Government in 23 years. Elected on a sweeping agenda for social policy reform (Wilenski 1986). High complexity reorganisation of APS departments and agencies, reflecting the government's social priorities, that profoundly changed the machinery of government in the APS (Davis et. al. 1999). |
| 1973 June | 25% across the board tariff cut | First step in microeconomic reform (Quiggin 1996a). |
| | Industry Assistance Commission Act 1973 | Replaced the Tariff Board. Public advocate of microeconomic reform in every area of the economy (Quiggin 1996a). |
| | Commonwealth Grants Commission Act 1973 | Amendment to Commonwealth Grants Commission to advise on the allocation of financial assistance in General Purpose Payments to the States. |
| 1974 May | Re-election Whitlam Labor Government | Microeconomic reform agenda (Quiggin 1996a) Established inquiry into government administration in July 1974 which reported in 1976 (RCAGA 1976), Chaired by Dr H. C. Coombs, with broad terms of reference to review Commonwealth administration. |
| | Trade Practices Act 1974 | |
| 1975 January | Expenditure Review Committee (ERC) | A special cabinet sub-committee with six ministers and their departmental heads (Wanna et. al. 2000, 62). |

Appendix D Events

| TIME | EVENT | SIGNIFICANCE |
|---------------|--|--|
| | Administrative Appeals Tribunal Act 1975 | AAT provides rights of administrative appeal by aggrieved citizens and has the power to change decisions. Supported by specialist tribunals including Social Security Appeals Tribunal. |
| December 1976 | Election Fraser Conservative Coalition Government | High complexity restructure APS abolished 15 departments and created 12 new departments (Davis et al 1999). |
| | Final Report RCAGA (Coombs Report) | Established by Whitlam Government (July 1974), the report provided 337 recommendations in one volume of report and four volumes of appendices. Wide-ranging recommendations to achieve greater accountability and coordination in the APS, and to improve efficiency and effectiveness in providing public services were not generally implemented (Wilenski 1986). However the Report was a watershed document that influenced the APS reforms in the over the next two decades. |
| | Premiers' Conference | New general revenue sharing arrangements provided for a fixed % of Commonwealth income tax revenue to be allocated to the states, and distribution between states based on agreed per capita relativities (Hughes 1998). |
| November | Treasury/Finance portfolio split | Prime Minister created the Department of Finance by separating the financial (supply) functions from the economic functions of Treasury, with responsibility for financial management and control. With a separate minister and permanent head, Finance developed as powerful central agency. From 1976 to 1979 its role was coordination of the Commonwealth government's financial functions and accounting services. From 1979 its role expanded to the financial management of resources, from 1984 it had primary responsibility for coordinating implementation of the FMIP reforms in the APS. Responsible for the expenditure side of the budget moved to DoF, and Treasury retained responsibility for macroeconomic policy, including revenue policy (Wanna et. al. 2000). |
| 1977 July | Establishment Statutory Office of the Commonwealth Ombudsman | Ombudsman and Deputy Ombudsman, appointed under the Ombudsman Act 1976, located in the Prime Minister's Portfolio, responsible for independent inquiries into complaints about administrative decisions. Legislation is part of a package of administrative review mechanisms to promote fairness and transparency in administrative decisions. |
| | Administrative Decisions (Judicial Review) Act 1977 | Requires agencies to abide by due process in administrative decisions and record, for accountability purposes, the reasons for decisions. Provides statutory rights of judicial appeal by aggrieved citizens (O'Faircheallaigh, Wanna & Weller 1999). |
| December | Re-election Fraser Coalition Government | |

Appendix D Events

| TIME | EVENT | SIGNIFICANCE |
|-------------------|---|--|
| 1979 | Audit Amendment Act 1979 | Formally extended Auditor-General's power to include efficiency (performance) audits of government agencies. |
| 1980 October | Re-election Fraser Coalition Government | Created a ministerial committee to review Commonwealth functions – dubbed the 'Razor Gang' – and establish which could be better performed by other levels of Government (states or local) or by the private sector (Wanna et al. 2000, 129-132). |
| 1983 5 March | FOI Act 1981 Election Hawke Labor Government | Managerialist approach to reforming APS set out in <i>Reforming APS</i> White Paper Centrally coordinated program of continuous improvement to develop APS that is more efficient, effective and responsive to ministers and parliament Re-established the ERC as a standing sub-committee of Cabinet controlled by Prime Minister, Treasurer and Minister for Finance – dubbed the 'trioka' (Wanna et al. 2000, 159). |
| | Financial Management Improvement Program (FMIP) | Medium complexity reorganisation abolished six departments and created eight (Davis et al. 1999). |
| June | FMIP Steering Committee | Established to oversee implementation of the FMIP reforms (continued until 1980). |
| 1984 May | FMIP Interdepartmental Advisory Committee | Representatives from Finance, PSB, Transport, ABS and four pilot FMIP departments (Communications, Defence, Health, Immigration & Ethnic Affairs), chaired by a line agency member, convened by DoF, secretariat in DoF (Wanna. et. al. 2000, 194). |
| | | PSB announced Program Management Performance Reviews (PMPRs) would replace Joint Management Reviews (JMRs) as the main mechanism for evaluation of APS agencies. JMRs focused on administrative efficiency of program delivery. PMPRs were to shift the focus to effectiveness by evaluating program results against policy objectives. |
| 1 December | Re-election second Hawke Government | Trilogy commitment not to increase in tax or expenditure as proportion GDP over the life of the parliament, and to reduce the budget deficit as a proportion of GDP over three years (subject to 'let-out' clauses). |
| 1986 September | Prime Minister established Efficiency Scrutiny Unit | Medium complexity reorganisation abolished six departments and created seven (Davis et al. 1999). Headed by David Block from the financial sector, to review public sector operations, attached to PM&C, reported through Prime Minister to ERC Cabinet. Report in 1987 recommended abolition of the PSB. |

Appendix D Events

| TIME | EVENT | SIGNIFICANCE |
|-----------|--|--|
| 1987 | | |
| July | Re-election third Hawke Government | |
| July | Structural reform APS | Most complex change in departmental machinery of government in the history of the Commonwealth (Nethercote 1999) that reflected an explicit practical and organisational philosophy (Davis et al 1999). Ministry increased from 27 to 30, 17 Cabinet members. Two-tier ministerial structure (continued by successive governments). Number of departments reduced from 28 to 18. IAC transferred from the industry portfolio to Treasury. |
| September | Abolition of the Public Service Board | Replaced with smaller Public Service Commission (PSC) Devolution and decentralisation of human resource management. |
| | Management Advisory Board (MAB) | Established under Section 22(2) Public Service Act to advise Government on significant management issues. Replaced by Management Advisory Committee in 1998. |
| 1988 | | |
| March | MAB initiated formal evaluation of FMIP. | Task Force of Management Improvement (Wanna et. al. 2000, 197) |
| 1989 | | |
| March | DoF Evaluation Task Force | Established to develop a comprehensive evaluation strategy as part of budget reform. |
| | States Grants (Schools Assistance Act) 1988 | Introduced resource agreements for Commonwealth grants to state government schools that provided for annual agreements which tied funding to detailed reporting within an information framework agreed by the Australian Education Council. This was one of the first resource agreements to tie funding to reporting on 'effectiveness'. (MAB-MIAC 1991). |
| December | Management Improvement Advisory Committee (MIAC) | Responsible for coordination of implementation of FMIP and other reforms. A committee of senior officers broadly representative of the service as a whole to advise MAB on management issues and initiatives in the APS. Chaired by a Deputy Secretary from an operating department to emphasise an operational perspective. Reports in MAB-MIAC publication series are intended to provide a practical orientation for the APS agencies through a case study program of 'best practice examples' (MAB-MIAC 1992, 57). Replaced IADC and FMIP Steering Committee disbanded in 1987. |
| 1990 | | |
| March | Re-election fourth Hawke Government | |
| | Industry Commission Act 1990 | Created from the Industries Assistance Commission with broader inquiry scope. |

Appendix D Events

| TIME | EVENT | SIGNIFICANCE |
|------------|---|--|
| 1990 cont. | Portfolios required to submit annual Program Evaluation Plans (PEPs) | Each portfolio required to prepare an annual plan for major evaluations of program outcomes and effectiveness. New policy proposals to Cabinet to include an evaluation plan. Evaluation reports to be published. Each program to be evaluated every three to five years. |
| 1991 | PEPs | Portfolios required to publish results program evaluations listed in PEP (Wanna et. al. 2000). |
| July | Special Premiers Conference agrees to benchmark economic infrastructure services provided by GTEs | Commonwealth, state and territory heads of government agreed to a Review of Government Trading Enterprises to promote competition by benchmarking the performance of economic infrastructure services. The head of the Industry Commission (later the Productivity Commission) chaired the Steering Committee (SCNPMGTE) established to manage the Review. The secretariat was located in the Industry/Productivity Commission. Annual performance reports comparing the efficiency and effectiveness between states and territory governments were published from 1993 to 1998. The Review was completed in 1998 but the PC continues to monitor the performance of GTEs as part of its ongoing research program. |
| December | Paul Keating replaced Bob Hawke as Prime Minister, Labor Government | <i>One Nation</i> Prime Ministerial Statement |
| 1992 | Establishment Council of Australian governments (COAG) | The Commonwealth, state and territory governments agreed to establish a permanent Council of Australian Governments (COAG), to initiate, develop and monitor the implementation of policy reforms requiring cooperative action by the Australian governments. COAG replaced ad hoc Special Premiers' Conferences (O'Neill and McGuire 1999). The Prime Minister chairs COAG and the secretariat is located in the Department of the Prime Minister and Cabinet (PM&C) in Canberra. |
| | COAG Independent Committee of Inquiry into National Competition Policy (Hilmer, Rayner and Taprell) | COAG commissioned Professor Fred Hilmer to conduct an independent inquiry into the appropriate principles of competition policy and changes to the Trade Practices Act 1974. |
| 1993 | | |
| March | Re-election Keating Labor Government | Medium complexity reorganisation of the APS abolished six departments and created seven (Davis et. al. 1999) TPC transferred from AG to Treasury and Consumer Protection program from AG to DIST. |
| | Committee of Inquiry into National Competition Policy (Hilmer) Report | Established competition and competition on the policy agenda. Attributed the decline in performance of the Australian economy to protection from competition. Identified anti-competitive arrangements and recommended a National Competition Policy (NCP) be applied to all sectors and competitive principles to be applied to provision of public services. (Quiggin 1996a, Chapter 14). |

Appendix D Events

| TIME | EVENT | SIGNIFICANCE |
|------------|--|--|
| 1993 cont. | | |
| June | Establishment Parliamentary Audit Committee | Separate budget fund for the Auditor-General (Verspaandonk 2000). |
| July | COAG agrees to a review to benchmark the performance of government-funded social infrastructure services | |
| 1994 | COAG establishes steering committees to benchmark government social services | Steering Committee for the Review of Commonwealth/State Service Provision (SCRCSSP). Head of the Industry Commission appointed as an independent Chair and the secretariat also located in the Industry Commission (Productivity Commission from 1996). |
| 1995 | | |
| April | COAG Agreement on principles of National Competition Policy | COAG signed three intergovernmental agreements to implement NCP reforms: <ul style="list-style-type: none"> • Competition Principles Agreement (CPA) • Conduct Code of Agreement • Implementation Agreement NCP established a federal approach to microeconomic reform, agreement to review and reform legislation restricting competition and apply competition principles including CTC to all levels of government and all sectors of the economy. The States and Territories are responsible for applying the principles to local government (CPA Clause 7). COAG also agreed to principles for progressive reform of health and related community services including: <ul style="list-style-type: none"> • restructuring existing programs into general (prevention), acute (episodes of treatment) and coordinated care • setting outcomes targets • changing funding from inputs for discrete programs to outcome/outputs • nationally consistent performance information (COAG Communique 11 April 1995 Attachment B & Communique 14 June 1996 Attachment B). |
| | SOCAP, TPC and Commonwealth Ombudsman conference | <i>'Quality of service and customer satisfaction in government agencies'</i> Public-private partnership with American Express-SOCAP survey of consumer complaint behaviour in Australia (SFPARC 1995) |
| | Establishment Public Sector Merit Protection Commission (PSMPC) | Created by amalgamation of PSC and Merit Protection and Review Agency. |
| | Commonwealth Competition Policy Reform Act 1995 | Legislation and three associated codes of practice to implement NCP. Provides for uniform consumer protection and business rights to all sectors of the economy. NCC created to supervise progress of governments in implementing NCP reforms. |

Appendix D Events

| TIME | EVENT | SIGNIFICANCE |
|------------------------|---|--|
| 1995 cont. November | ACCC | National competition and consumer relations agency created by amalgamation of TPC and PSA. Responsibility for administering the TP Act and PSA Act transferred to ACCC (Quiggin 1999; Fels 1996 & 1997). |
| 1996 | IC Report on Competitive Tendering & Contracting (CTC) | Recommended extending competitive tendering and contracting of government services, and linked social policy to microeconomic reform (Argy 1998). |
| March | Election first Howard Government (Liberal/National Coalition) | New Treasurer released Treasury estimates revising the estimated budget deficit – dubbed ‘the \$8 billion black hole’ Retained ERC controlled by coalition ‘trioka’ (Howard, Costello & Fahey). Housing, education, health, welfare and labour market portfolios were targeted for expenditure reductions. Medium complexity restructure of the APS abolished seven departments and created five new departments but retained portfolio structure (Davis et al. 1999). |
| | Productivity Commission (PC) created by administrative amalgamation of IC, EPAC & BIE | Pre-eminent statutory authority advising on all aspects of microeconomic reform and covering all sectors of the economy. PC assumed role of IC as secretariat for performance monitoring for COAG (SRCSSP & SCBPMGTE). Productivity Commission Act 1998 made the necessary legislative changes (PC 1998c; Scales 1998). |
| March | Prime Ministerial Policy Statement announces service charters | Statement in response to report <i>More Time for Business</i> Policy decision to introduce service charters for all Commonwealth departments, agencies and business enterprises |
| June | National Commission of Audit Report | Established by the Howard Government with a wide brief to advise on the financial position of the government including the effectiveness and efficiency of current service delivery arrangements with the states. The NCA report identified overlap between Commonwealth and State responsibilities and a lack of accountability in areas of service delivery. The report recommended principles to improve efficiency and effectiveness of government programs; greater focus on efficiency in payments to the states; transfer of service delivery responsibilities to the States in selected areas including education, health and housing; and, that the States provide output and outcome data to the Commonwealth. The Government endorsed the principles of competitive tendering, contracting and outsourcing of government services but did not accept the recommendations for the transfer of responsibilities for education, health and housing the States. (NCA 1996; Wanna et. al. 2000 246-249). |

Appendix D Events

| TIME | EVENT | SIGNIFICANCE |
|------------------------|---|---|
| 1996 cont. December | Policy decision on IC Report on CTC | Performance Improvement Cycle (PIC) All commonwealth agencies to systematically review activities and consider benchmarking, BPR, purchaser-provider arrangements and CTC to improve performance. DoFA responsible for developing implementation guidelines and coordinating implementation in the 1997-98 budget cycle. |
| 1997 April | Policy decision by Minister for Finance (John Fahey) to introduce accrual accounting and outcomes & outputs resource management framework | Outcomes and outputs framework replaced portfolio budgeting introduced under FMIP. DoFA responsible for developing guidelines and coordinating implementation. |
| September | Service Delivery Agency (Centrelink) | Separates policy and service delivery for income support. Autonomous Statutory Authority in (then) Social Security portfolio, accountable directly to Minister. Creates a 'one-stop-shop' for the income support payments and related services. Centrelink contracts with Commonwealth departments and State government agencies (Vardon 2000). |
| October | Restructure APS | DoFA created from the Department of Finance and the Department of Administrative Services, responsibility for service charters moved from DIST to DoFA. (DAS had been under the jurisdiction of the Minister for Finance for Cabinet purposes since 1993.) |
| 1998 January | New financial management legislation (replaced Audit Act 1901 & Audit Amendment Act 1979) | New accountability framework for departments, agencies and GBEs: <ul style="list-style-type: none"> • <i>Financial Management and Accountability Act 1997</i> • <i>Commonwealth Authorities and Companies Act 1997</i> • <i>Auditor General Act 1997</i> Clarifies responsibilities and strengthens powers of the Auditor General, as an independent office of parliament, to undertake financial and performance audits. The legislation gives a broad definition of performance audits and gives the Auditor-General wide scope to conduct audits of all commonwealth public agencies except GBEs. (MAB 1997; Barrett 1997b). |
| March | Administrative changes to APS by amendment to Public Service Regulations | New set of APS Values (replaced values articulated by MAB in 1993 (MAB 1993c)) Code of conduct specifying standards of behaviour for public servants. Requirement for annual report to parliament by Public Service Commissioner on the <i>State of the Service</i> Changes to Annual Reports for departments and agencies. (Public Service Act 1999). |

Appendix D Events

| TIME | EVENT | SIGNIFICANCE |
|-------------------|---|--|
| 1998 cont. | 1998-99 Budget Accrual budget format introduced for Commonwealth agencies | Accrual format replaced cash-based budget in the 1989-99 Budget Papers based on 'best practice in the private sector'. Labor's concept of the 'portfolio budget' was quietly dropped as 45 'material agencies' received separate budgets accounting for 99% of Commonwealth finances. (Wanna et. al 2001, 260-268) |
| April | Productivity Commission Act 1998 | Government's principal review and advisory body on microeconomic reform. Legislative effect to 1996 administrative amalgamation of BIE, EPAC & IC. (Replaced the EPAC Act 1983 and the IC Act 1989) |
| May | Job Network | Introduced a fully contestable market for employment placement services, competition between providers and choice for job seekers (Moore-Wilton 1999). Replaced the contract model for case management for employment services introduced by the Labour Government between 1994 and 1996. Contracts worth \$1.7 billion for job seeking and training services were entered into with more than 300 public, private and community sector agencies. |
| | Department of Prime Minister and Cabinet issues revised requirements for Annual Reports | Outcomes and outputs framework inked performance information in agency Annual Reports to PBSs. |
| October | Re-election Howard Government (Liberal/National Coalition) | Low complexity restructure Responsibility for whole-of-government reporting on implementation of Client Service Charters transferred to the Special Minister of State. Service Charters Unit relocated from DIST to DoFA. |
| 1999 September | Reference Group on Welfare Reform (RGWR) | Minister for Family and Community Services, Jocelyn Newman, appointed Patrick McClure from Mission Australia as Chairperson of RGWR to develop a Green Paper on reform of income support and related services. The Minister released a discussion paper <i>The Future of Welfare Reform in the 21st Century</i> identifying three objectives and six principles for welfare reform. |
| December | Public Service Act 1999 | Legislative effect to administrative changes to APS. Management Advisory Committee (MIC) replaces MAB (section 64). Statement of APS Values (section 10) Code of Conduct (section 13) New requirements for Annual Reports (sections 63 & 70) |
| | 1999-2000 Budget 'outcomes-outputs' budget format introduced for Commonwealth agencies | First budget under new outcomes and outputs accrual-based resource management framework. Outcomes and outputs budgets give outcomes a legal status. |

Appendix D Events

| TIME | EVENT | SIGNIFICANCE |
|-----------------|---|--|
| 1999 cont. | 1999-2000 Annual Reports | First reports requiring performance information under the new outcomes and outputs framework. First reports requiring performance information on service charters |
| 2000 | 2000-2001 Budget | Agencies funded on cash basis for full cost of delivering public goods and services (Wanna et. al. 2000, 269) |
| March | Green Paper Interim Report of the Reference Group on Welfare Reform | <i>Participation Support for a More Equitable Society.</i> Chairperson Patrick McClure Interim Report Reference Group on Welfare Reform Focus of the inquiry was income support payments. |
| July | Final (McClure) Report Reference Group on Welfare Reform | <i>Participation Support for a More Equitable Society</i> Chairperson Patrick McClure Final Report Reference Group on Welfare Reform Recommended a framework for a 'participation support system' based on a broad concept of economic and social participation. Identified five key features (individualised service delivery, simpler income support structure, incentives and financial assistance, mutual obligations and social partnerships) and three key outcomes (reduced incidence of joblessness, reduced reliance on income support and stronger communities). |
| | Joint Ministerial Statement Prime Minister John Howard and Minister for Family and Community Services, Senator Jocelyn Newman | Government's response to the McClure Report Committed to the five principles of the McClure Report. |
| 2001 January | | Responsibility for Service Charters transferred to PSMPC in PM&C portfolio (PSC 2001). |
| July | | DoF whole-of-government reporting obligations for Service Charters ceased, responsibility for reporting is devolved to departments and agencies. |
| November | Re-election Howard Government | |

APPENDIX E

CHRONOLOGY OF AUSTRALIAN DOCUMENTARY SOURCES

Analysis of the ideas that have influenced reform in this study is based on primary documents selected from the public record. This appendix lists, in chronological order, the primary Australian documentary sources in this study. The sources of evidence selected include parliamentary committees, central agencies, departments and independent advisory agencies. The documents include White Papers, reports, policy statements, key speeches, implementation guidelines, best practice guides and evaluation reports. The evidence from these documents supports the arguments in Chapters 2 to 8 for path dependent change and the transfer of ideas from business to public management. Each entry lists the title, author and document type.

| DATE | DOCUMENT |
|------------------|---|
| 1976 | <i>Report on Australian Government Administration (Coombs Report) (RCAGA 1976)</i> Royal Commission on Australian Government Administration, Chairman Dr H.C. Coombs Established by the Whitlam Government in 1974, reported to the Fraser Government in 1976. Report in four volumes represented the most extensive survey of the Commonwealth Public Service public service ever undertaken. |
| 1979 | <i>Through a Glass Darkly (SSCSW 1979)</i> Senate Standing Committee on Social Welfare, Chairman Senator Peter Baume Final Report Evaluation of Australian Health and Welfare Services Volume 1 Report & Appendices Volume 2 Papers commissioned by the Committee. |
| 1984 February | <i>FMIP Diagnostic Study (APSB-DoF 1984)</i> Joint Report Australian Public Service Board and Department of Finance Conducted by W. D. Scott & Company |
| April | <i>Budget Reform (Commonwealth 1984)</i> Minister for Finance (and Minister Assisting the Prime Minister for Public Service), John Dawkins Policy White Paper |
| 1986 June | <i>Corporate Management - Managing for Results (APSB-DoF 1986)</i> Report FMIP principles and progress report |
| 1987 May | <i>Evaluating Government Programs A Handbook (DoF-APSB 1987)</i> FMIP Unit, Department of Finance Implementation guide Principles to guide the conduct of evaluations. |

Appendix E Reports

| DATE | DOCUMENT |
|----------------------|---|
| 1987 cont. August | <i>FMIP and Program Budgeting: A Study of Implementation in Selected Agencies (DoF 1987)</i> Report Abridged version of a study of progress on FMIP and program budgeting by Bill Allen (consultant) completed in March 1987. |
| 1988 December | <i>1988 FMIP Report (DoF 1988)</i> FMIP Evaluation Task Force Report DoF task force established to develop a comprehensive evaluation strategy as part of the process of budget reform. |
| 1990 September | <i>Not Dollars Alone. Review of the Financial Management Improvement Program (HRSCFPA 1990)</i> House of Representatives Standing Committee on Finance and Public Administration, Chairman Mr Stephen Martin Final Report <i>Chapter 7 Performance Information</i> <i>Chapter 8 Public Accountability</i> Recommended a full scale, independent review of FMIP in 1992. |
| 1991 June | <i>Resource Agreements (MAB-MIAC 1991)</i> Chairman MAB Mike Codd, Chairman MIAC Peter Core MAB-MIAC Report No. 4 Better Practice Guide <i>Federal Public Sector Management Reform - Recent History and Current Priorities (Codd 1991)</i> Public Service Commission Occasional Paper No. 11 Report on review of FMIP reforms |
| 1992 February | <i>Contracting for the Provision of Services in Commonwealth Agencies (MAB-MIAC 1992)</i> Chairman MAB Mike Keating, Chairman MIAC Peter Core MAB-MIAC Report No. 8 Better Practice Guide |
| December | <i>The Australian Public Service Reformed. An Evaluation of a Decade of Reform (MAB-MIAC 1992)</i> MAB-MIAC Task Force on Management Improvement, Manager Vic Rogers Department of Social Security Final Report Independent task force established by MAB to undertake 'a stocktake' on a decade of reform and identified future directions. <i>First Report - Background and Methodology (April 1992)</i> Unpublished draft version of the final report <i>Not Rhetoric Alone: the New Public Management in Australia</i> (Bibliography Wanna et al 2000) |
| 1993 | <i>Client Service in the Australian Public Service - A Model for Best Practice (JCAPS 1993)</i> Steering Committee Research Report for the APS 2000 Research Program of the Joint Council of the Australian Public Service Study prepared by ATO with assistance from DIR. The report draws on case studies of client service delivery in the APS, international developments in the public sector, and recent developments in the private sector. |

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| DATE | DOCUMENT |
|------------|---|
| 1993 cont. | |
| February | <p><i>Performance Information and the Management Cycle (MAB-MIAC 1993a)</i> Chairman MAB Mike Keating, Chairman MIAC Peter Core MAB-MIAC Report No. 10 Better Practice Guide Case studies of effective use of performance information in the management cycle of planning, budgeting, implementation and evaluation.</p> |
| May | <p><i>Quality Service Standards (Nethercote, Prasser & Wiggins 1993)</i> Conference jointly sponsored by the Commonwealth Department of Finance and the IPA A Canberra Branch International, Commonwealth and State, legal and practitioner perspectives. Edited speeches and conference discussion were published in special edition of the Canberra Bulletin of Public Administration</p> |
| June | <p><i>Accountability in the Commonwealth Public Sector (MAB/MIAC 1993b)</i> Chairman MAB Mike Keating, Chairman MIAC Allan Hawke MAB/MIAC Report No. 11 Better Practice Guide</p> |
| June | <p><i>Building a Better Public Service (MAB/MIAC 1993c)</i> Chairman MAB Mike Keating, Chairman MIAC Allan Hawke MAB/MIAC Report No. 12 Better Practice Guide</p> <p><i>Public Housing (IC 1993)</i> Industry Commission Report No. 34 Inquiry into Commonwealth State Housing Agreement (CSHA)</p> |
| August | <p><i>National Competition Policy (Hilmer Report) (Hilmer 1993)</i> Chairperson, Prof Frederick Hilmer, Members Mark Raynor and Geoffery Taperell Report by Independent Committee of Inquiry Recommended principles and implementation framework for national competition policy.</p> |
| December | <p><i>Evaluation: Improving Program Performance and Decision Making (DoF 1993)</i> Papers delivered by senior executives during 1992 and 1993 <i>The Role of Evaluation in the Budget (Sedgwick 1993)</i> Secretary Department of Finance, Steve Sedgwick Presented to staff of the Department of Health, Housing and Community Services <i>Key Elements in Evaluation (Barrett 1993)</i> Deputy Secretary, Department of Finance Address to Public Service Commission seminar</p> |
| 1994 | <p><i>Industry Commission Annual Report 1993-94 (IC 1994)</i> Chairman, Bill Scales Appendix C examined Commonwealth Special Purpose Payments to the States</p> <p><i>Commonwealth Ombudsman Annual Report 1993-94 (Commonwealth Ombudsman 1994)</i> Commonwealth Ombudsman, Ron McLeod Twenty First Annual Report under the Ombudsman Act 1976</p> |

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| DATE | DOCUMENT |
|----------|---|
| 1995 | |
| June | <p><i>Charitable Organisations in Australia (IC 1995)</i> Presiding Commissioner Bill Scales, Associate Commissioners Dr Roger Mauldon (IC) and Sister Margaret McGovern Industry Commission Report No. 45 Inquiry was initiated by the IC in 1993.</p> |
| July | <p><i>Quality for our Clients: Improvement for the Future (DoF 1995)</i> Dr Sylvie Trosa, Assistant Secretary, Resource Management Improvement Branch, Department of Finance Report of a working group of Commonwealth and State public servants and conference papers Part 1: Report (57 pages) Part 2: Quality Service Conference, Sydney (70 pages) <i>Interpreting Performance Through Quality (Sedgwick 1995)</i> Secretary Department of Finance, Steve Sedgwick Speech <i>Service Quality in the Public Sector (Halligan 1995)</i> Plenary Session, Dr John Halligan, University of Canberra</p> |
| October | <p><i>Keeping the Customer Satisfied (HRSCBFPA 1995)</i> House of Representatives Standing Committee on Banking, Finance and Public Administration, Chairman Mr David Simons MP Report</p> <p><i>Study of Consumer Complaint Behaviour in Australia Report 1 (AMEX-SOCAP 1995a)</i> Report <i>A Profile of Enquiry and Complaint Handling by Australian Business (AMEX-SOCAP 1995b)</i> Survey commissioned by American Express and The Society of Consumer Affairs Professional in Business (SOCAP) The Report and Survey were considered at a 1995 conference in Canberra <i>Quality of Service and Customer Satisfaction</i>, sponsored jointly by SOCAP, Trade Practices Commission and the Commonwealth Ombudsman.</p> |
| December | <p><i>Service Delivery by the Australian Public Services (SFPARC 1995)</i> Senate Finance and Public Administration References Committee, Chair Robert Bell Report</p> <p><i>Report on Government Service Provision 1995 (SCRCSSP 1995)</i> First Report by the SCRCSSP on benchmarking government services for COAG Developed performance indicators and reported performance for 'social infrastructure services'</p> |
| 1996 | |
| January | <p><i>Competitive Tendering and Contracting by Public Agencies (IC 1996)</i> Presiding Commissioner Keith Horton-Stephens, Associate Commissioner Colin McAlister Industry Commission Report No. 48 Final Report</p> |
| June | <p><i>Report to the Commonwealth Government (NCoA 1996)</i> National Commission of Audit, Chairman Bob Officer (Melbourne Business School) Report</p> |
| June | <p><i>Stocktake of progress in microeconomic reform (PC 1996)</i> Research Report</p> |

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| DATE | DOCUMENT |
|------------|--|
| 1996 cont. | |
| June | <p><i>Raising the Standard: Benchmarking for Better Government (MAB-MIAC 1996)</i> Chair MAB Max Moore-Wilton, Chair MIAC Russell Higgins MAB-MIAC Report No. 21 Better Practice Guide</p> |
| November | <p><i>Performance Information Principles (ANOA 1996c)</i> Auditor General, Pat Barrett Better Practice Guide</p> <p><i>Towards a Best Practice APS (Reith 1996)</i> Minister Industrial Relations and Minister Assisting the Prime Minister for the Public Service, Peter Reith Discussion Paper Foreshadowed new public service legislation details government's intentions for public sector reform.</p> <p><i>Performance Information Principles (ANOA-DoF 1996)</i> Better Practice Guide Case studies from Departments: Health, Family Services, Social Security, Veterans' Affairs and Employment Education, Training and Youth Affairs.</p> <p><i>The Globalisation of Public Reform (Shergold 1996)</i> Public Service Commissioner, Dr Peter Shergold Speech IPAA National Conference 1996</p> |
| December | <p><i>Client Service Australian Taxation Office (ANOA 1996a)</i> Auditor General, Pat Barrett ANOA Audit Report No. 22 Performance Audit</p> <p><i>Customer Service: Department of Social Security (ANOA 1996b)</i> Auditor General, Pat Barrett ANOA Report No. 25 1996 Performance Audit</p> <p><i>Raising the Standard: Benchmarking for Better Government (MAB-MIAC 1996)</i> MAB-MIAC Report No. 21 Better Practice Guide Practical skills and toolkit for comparing performance with best practice</p> |
| 1997 | |
| February | <p><i>Report on Government Service Provision 1997 (SCRCSSP 1997)</i> Chairperson, Bill Scales Second Report on benchmarking government services for COAG 'Social infrastructure services' redefined as 'human' services. Increased scope of performance indicators and reporting.</p> |
| March | <p><i>More Time for Business (Howard 1997)</i> Prime Minister, John Howard Policy Statement Mandated that all departments, agencies and Government Business Enterprises dealing with the public to develop Service Charters within two years.</p> |
| May | <p><i>Accountability of Government Services Provided by Contractors (SFPARC 1997)</i> Senate Finance and Public Administration References Committee, Chairman Senator Shayne Murphy, ALP Tasmania. Report</p> |

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| DATE | DOCUMENT |
|------------|---|
| 1997 cont. | |
| May | <p><i>Before You Sign on the Dotted Line ... Ensuring Contracts can be Managed (MAB-MIAC 1997)</i> Chairman MAB Max Moore-Wilton, Acting Chairman MIAC Len Early MAB-MIAC Report No. 23 Better Practice Guide</p> |
| June | <p><i>A Good Practice Guide for Effective Complaint Handling (CO 1997a)</i> Commonwealth Ombudsman, Philippa Smith Guidelines</p> |
| August | <p><i>Challenges Facing the Australian Public Sector (Moore-Wilton 1997)</i> Secretary Department of Prime Minister and Cabinet Speech, ACT Branch IPAAA Lunchtime Seminar Series</p> |
| August | <p><i>Commonwealth Implementation Timetable (DIST 1997a)</i> Outlined each Minister's commitment to develop service charters within their portfolio</p> |
| October | <p><i>Performance Measures for Councils Improving Local Government Performance Indicators (IC 1997a)</i> Industry Commission Research Report Reviewed feasibility of developing national performance indicators for local government. Drew on the IC experience in two COAG projects - SCNPMGTE and SCRCSSP.</p> |
| October | <p><i>Accountability for Performance in a more Contractually Oriented Public sector (Barrett 1997b)</i> Auditor General, Pat Barrett Speech, National Public Accountants Conference, Sydney</p> |
| November | <p><i>The Quality in Customer Service Package</i> Report and implementation guidelines <i>The Toolkit: Quality in Customer Service - the better practice guide (MAB-DIST 1997a)</i> <i>The Better Practice Guide to Quality in Customer Service</i> (five principles of customer-focused organisations) (MAB-ANOA 1997) <i>Report: Quality in Customer Service in the Australian Public Service (MAB-DIST 1997b)</i></p> <p><i>Developing Service Charters - A Guide for Commonwealth Government Departments, Agencies and Enterprises (DIST 1997b)</i> Implementation guidelines developed DIST.</p> <p><i>Principles for Developing a Service Charter (DIST 1997c)</i> Nine principles developed by a task force of consumer, business and government representatives.</p> <p><i>A Healthy Public Service is a Vital part of Australia's Democratic System (Howard 1998)</i> Prime Minister, John Howard Speech, Sir Robert Garran Oration 1997 IPAA National Conference.</p> |

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| DATE | DOCUMENT |
|------------------------|---|
| 1997 cont. December | <p><i>Beyond Bean Counting Effective Financial Management in the APS - 1998 & Beyond (MAB 1997)</i> MAB Chairman, Alan Hawke Best Practice Guide to Financial Management Part 1: The Future APS Key document detailing Howard Government's 'Improved Financial Management Framework' for public sector and implementation issues. Part 2: The APS Benchmarked Benchmarking survey undertaken by KPMG Management Consulting of financial practices in 216 organisations in public and private sector in Australia, New Zealand, UK, Canada and USA concluded the APS is behind best private sector practice. Part 3 Best Practice Financial management.</p> <p><i>Management of the Implementation of the Commonwealth Services Delivery Arrangements. Centrelink (ANOA 1997)</i> Auditor General, Pat Barrett ANOA Audit Report No. 18 1997-98 Performance Audit</p> <p><i>Reforms In Government Service Provision (SCRCSSP 1997b)</i> SCRCSSP Chairman Bill Scales Research Report Three Case Studies of significant reforms affecting the delivery of "government funded services": Purchasing Human Services in South Australia (shift to purchasing of community services) Casemix funding of Public Hospitals in Victoria (output based funding) Competitive Tendering for Prisons in Queensland (competitive tendering and contracting)</p> <p><i>Industry Commission Annual Report 1996-97 (IC 1997)</i> Chairman Bill Scales Chapter 1 The productivity imperative Appendix B Performance Monitoring/Benchmarking</p> |
| 1998 January | <p><i>Microeconomic Reforms in Australia: A Compendium from the 1970s to 1997 (IC 1998)</i> Industry Commission Research Report A reference document to facilitate analysis of microeconomic reform that provides an overview and identifies key trends and reforms in different sectors. Supplements <i>Stocktake of progress in microeconomic reform (PC 1996)</i></p> |
| 19 January | <p><i>Accelerating and Broadening Australia's Microeconomic Reform (Scales 1998)</i> Industry Commission Chairman, Bill Scales Speech 1998 Australian Agricultural and Resource Economic Society Conference</p> |
| February | <p><i>Report on Government Services 1998 (SCRCSSP 1998)</i> SCRCSSP Chairman Bill Scales Third Report Benchmarking Government Services</p> |
| February | <p><i>Reforming the public service to meet the global challenge (Kemp 1998c)</i> Minister Assisting the Prime Minister for the Public Service, Dr David Kemp Speech to the Committee for Economic Development of Australia</p> |
| March | <p><i>The Performance Improvement Cycle - guidance for managers (DoFA 1998a)</i> CTC implementation guidelines Appendix A describes management improvement tools: Benchmarking, BPR, contracting to other agencies, CTC and purchaser-provider arrangements.</p> |

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| Superseded by <i>The Outcomes & Outputs Framework (DoFA 2000a)</i> | |
|--|---|
| DATE | DOCUMENT |
| 1998 cont. | <i>Government Service Charters Complaint Handling Systems and Processes (DoF 1998d)</i> Case studies of complaint handling systems in Australia and the UK. |
| June | <i>What Price Competition? (HRSCFCA 1998)</i> House of Representatives Standing Committee on Family and Community Affairs, Chairman Mr John Forrest. Inquiry into the desirability and feasibility of increasing contracting out and competitive tendering of welfare service delivery by all service providers. |
| August | <i>Why Have a Productivity Commission? (Banks 1998)</i> Chairman Productivity Commission, Gary Banks Speech, CEDA Public Education Forum |
| October | <i>Performance of Government Trading Enterprises, 1991-92 to 1996-97 (PC1998b)</i> Research Report completed the work of the COAG SCNPMGTE, analysed performance outcomes from GTE reform for main stakeholders (consumers, shareholder governments, employees and the community). |
| November | <i>Productivity Commission Annual Report 1997-98 (PC1998c)</i> Chairman, Gary Banks <i>First State of the Service Report 1997-98 (PSC 1998)</i> Public Service Commissioner, Helen Williams Annual Report First Annual Report to the Prime Minister on the Australian Public Service under Public Service Regulations 12. <i>Responding to Diversity: Progress on Implementing the Charter of Public Service in a Culturally Diverse Society (DIMA 1998)</i> W. J. Farmer, Secretary Department of Immigration and Multicultural Affairs Access and Equity Annual Report 1998 <i>Charter of Public Service in a Culturally Diverse Society</i> was launched by the Minister for Immigration and Multicultural Affairs, Phillip Ruddock, in July and August 1998. |
| 1999 | |
| January | <i>The Use and Operation of Performance Information in the Service Level Agreements (ANOA 1999)</i> Auditor General, Pat Barrett ANOA Report No. 30 |
| February | <i>Report on Government Services 1999 (SRCSSP 1999)</i> Chairman Gary Banks Fifth Report Benchmarking Government Services |
| April | <i>New Performance Paradigms for the Public Service (Moore-Wilton 1999a)</i> Secretary, Department of Prime Minister and Cabinet Paper to National Public Sector Accounts Conference Outlines the major elements of Comm. health budgetary and APS staff reforms. |
| May | <i>Structural Adjustment Exploring Policy Issues (PC 1999)</i> Productivity Commission Workshop Proceedings |

Appendix E Reports

| DATE | DOCUMENT |
|-----------|---|
| 1999 cont | |
| September | <p><i>The Future of Welfare in the 21st Century</i>, (Newman 1999a) Minister for Family and Community Services, Senator Jocelyn Newman Speech National Press Club, Canberra</p> <p><i>The Challenges of Welfare Dependency in the 21st Century</i>, (Newman 1999b) Minister for Family and Community Services, Senator Jocelyn Newman Discussion Paper Appendix A Terms of reference for Reference Group on Welfare Reform (RGWR) for a Green Paper on welfare reform</p> |
| October | <p><i>Service Charters in the Australian Public Service</i> (Ellison 1999) Special Minister of State, Senator Chris Ellison Report to Parliament First 'whole-of-government' report on Service Charters in the APS for the two years July 1997-June 1999: Foreshadowed establishment of <i>Excellence in Customer Service Awards</i></p> |
| November | <p><i>State of the Service Report 1988-99</i> (PSC 1999) Public Service Commissioner, Helen Williams Annual Report Second annual report to the Prime Minister on the Australian Public Service.</p> |
| December | <p><i>Productivity Commission Annual Report 1998-99</i> (PC 1999a) Chairman Gary Banks Chapter 2 Improving Australia's social infrastructure services Appendix B Program Performance</p> <p><i>Nursing Home Subsidies</i> (PC 1999b) Productivity Commission Inquiry Report No. 6</p> |
| 2000 | |
| February | <p><i>Report on Government Services 2000</i> (SCRCSSP 2000) Chairman Gary Banks Sixth Report on benchmarking government services for COAG</p> <p><i>Using Consumer Views in Performance Indicators for Children's Services</i> (Gains 2000) Lyn Gains, Consultant Report for SCRCSSP</p> |
| March | <p><i>Participation Support for a More Equitable Society</i> (RGWR 200a) Chairperson Patrick McClure Interim Report Reference Group on Welfare Reform</p> |
| May | <p><i>Requirement for Annual Reports</i> (PM&C 2000) Department of Prime Minister and Cabinet Guidelines approved by the Joint Committee of Public Accounts and Audit under subsections 63(92) and 70 (2) of the <i>Public service Act 1999</i></p> <p><i>Productivity Commission Submission to the Interim Report of the Reference Group on Welfare Reform</i> (PC 2000a) Chairman Gary Banks</p> |
| June | <p><i>Client Service Charter Principles</i> (DoFA 2000a) Guidelines prepared by Service Charters Unit, CTC Branch, Finance Revised set of (four) principles with "more advice on reviewing a charter and on monitoring and reporting performance against client service standards".</p> |

Appendix E Reports

| DATE | DOCUMENT |
|------------|---|
| 2000 cont. | <p><i>Achieving Better Regulation of Services (PC 2000b)</i> Productivity Commission and ANU Conference Papers Chapter 1 Introduction by PC Chairman Gary Banks Chapter 8 Principles for regulating the professions by Byron, Gropp & Gusberti, PC. Chapter 10 Is market-based regulation the best way to regulate community services? The case for market-based regulation, Alan Moran, Institute of Public Affairs. The case against market-based regulation, Robert Fitzgerald, NSW Community Services Commission.</p> |
| July | <p><i>Participation Support for a More Equitable Society (RGWR 2000b)</i> Chairperson Patrick McClure Final Report Reference Group on Welfare Reform</p> |
| September | <p><i>Managing Compliance for Assurance and Performance: setting the Course - Integrating Conformance with Performance (Barrett 2000)</i> Key Speech by Auditor General to joint seminar Department of Finance and Administration, Attorney-General's Department and Australian Competition and Consumer Commission (72 pages).</p> |
| October | <p><i>State of the Service Report 1999-00 (PSC 2000)</i> Public Service Commissioner, Helen Williams Annual Report Third report to the Prime Minister on the state of the Australian Public Service. First report prepared in accordance with the Public Service Act 1999 (Section 44) Reported on accountability in part 4, and customer service in part 5.</p> |
| November | <p><i>Service Charters in the Commonwealth Government (Ellison 2000)</i> Special Minister of State, Senator Chris Ellison Report to Parliament Second 'whole-of-government' report on Service Charters for July 1999-June 2000: Report prepared by DoFA.</p> <p><i>The Outcomes & Outputs Framework (DoFA 2000)</i> Web-based implementation guide (52 pages) Guidelines for outcomes & outputs resource (Performance Management Cycle) framework introduced in the 1999 Federal Budget, supersedes the advice in DoFA 1998a & 1998b.</p> |
| December | <p><i>Australians Working Together (Howard & Newman 2000)</i> Prime Minister John Howard, Minister for Family and Community Services Joint Ministerial Statement Government's response to McClure Report</p> |
| 2001 | |
| February | <p><i>Report on Government Services 2001 (SCRCSSP 2001)</i> SCRCSSP Chairman Gary Banks Seventh Report on Benchmarking Government Services for COAG</p> <p><i>Better Practice Guide - Contract Management (ANOA 2001)</i> Auditor General, Pat Barrett Better Practice Guide (82 pages) Part 1 Risk Management Part 2 Contract Management</p> |

Appendix E Reports

| DATE | DOCUMENT |
|-------------|---|
| October | <i>State of the Service Report 2000-01 (PSC 2001)</i> Public Service Commissioner, Helen Williams Annual Report Fourth report to the Prime Minister on the Australian Public Service. <i>Evaluation and Performance Auditing: Sharing Common Ground (Barrett 2001)</i> Speech by Auditor-General to Australasian Evaluation Society International Conference <i>Performance Management in the APS (MAC 2001)</i> Chair MAC/Secretary Department of Prime Minister and Cabinet, Max Moore-Wilton. Guidelines for APS agencies on performance management systems First Report of the MAC |

APPENDIX F

CHRONOLOGY OF OECD PUMA DOCUMENTARY SOURCES

Contextual analysis of the institutions and ideas that have influenced reform has relied on narrative analysis of documents selected from the public record. Ideas have been transferred from business to public management. Ideas have also circulated in an international policy community that is the OECD program on Public Management and Governance (PUMA). Policy transfer is evident between OECD countries (Common 1998; Dolowitz 2000; Dolowitz & Marsh 2000).

Consistent objectives are more efficient and responsive public services, and strengthening accountability for results and resources (Schick 1999). Strategies include introducing performance management and increased emphasis on service quality standard setting and customer responsiveness (Hood 1991; Pollitt 1995; PUMA 1999a). This appendix lists in chronological order the primary documentary sources from PUMA used in this study. PUMA's work on service quality is reflected in symposium papers, country surveys and comparative case studies. Evidence from these documents was used in analysis of the transfer of ideas from business to public management in Chapters 2 to 8.

The PUMA documents provide some evidence of policy transfer reflected in similar concerns and objectives. A clearly articulated philosophy of managerialism and consumerism has driven public management reforms in many OECD countries (Kettl 1994; Pollitt 1990a; Walsh 1994 Schick 1999). There is also evidence of the transfer of ideas and techniques from business. Comparative case studies provide evidence of diversity in practice between countries, even within the NPM heartland of the UK, USA, Australia and New Zealand, reflecting differences in timing, reform strategies and political and institutional contexts. These documents also provide evidence of considerable ambiguity in the concept of quality.

The OECD's role in measuring the performance of advanced industrial countries is better known than its role as a global policy making think tank (Donald 1997). OECD country surveys and key documents reporting on the economic performance of member countries are widely cited in the public management literature. PUMA reports on a comparative basis, on public management developments in member countries. Although not as widely publicised, the OECD PUMA program has influenced public policy in

member countries, including Australia which has been an active participant in country studies and forums that bring together academics and practitioners.

PUMA is an international forum for top officials responsible for the central management systems of government. Formally established in 1990, PUMA consists of a Management Committee and a secretariat. The Management Committee, made up of senior officials of central government administrations from all 29 OECD member countries, directs the program and usually meets twice a year. The work program is undertaken by the PUMA Secretariat, in collaboration with specialist groups of senior managers.

One of PUMA's primary functions is to create a forum for the exchange of ideas on governance and management. PUMA's main activities are structured around a series of working parties and networks that reflect changing priorities. Until 1997 its policy focus was public management and service delivery. At its 20th session in Paris 28-29 October 1999, the Committee adopted a new mandate that shifted the emphasis from public sector management towards broader issues of governance. This was reflected in the name change of PUMA from 'Public Management' to 'Public Management and Governance'. The current priorities are budgeting and performance management, policymaking, regulatory reform, strengthening government citizen connections, human resource management and ethics.

PUMA identified its mission as to "provide information, analysis, assessment and recommendations on public management; exchange good practice; and report on issues and developments" (PUMA 2000). Country reviews, comparative analysis and evaluative benchmarking report on how member governments organise and manage their public services. PUMA explicitly endorses managerialist reforms in OECD countries (PUMA 2000):

... in the interests of cost-effectiveness through a focus on results; decentralised management; alternatives to direct provision of services and regulation; efficiency through more competition and productivity incentives; strengthened strategic capacity to guide the evolution of the state.

PUMA uses the comparative framework developed by the OECD to engage in "practice-oriented study and exchange experience" between member countries (OECD 1987, 3.)

PUMA recognised service quality as, “part of the general direction of public management reforms being pursued by OECD member countries to improve the responsiveness” of public sector institutions, by encouraging a greater emphasis on performance and results” (www.oecd.org/puma 17/11/98). Service quality is equated with “service delivery rather than service outcomes”, and the components of service quality identified include “timeliness, accessibility, convenience, appropriateness or suitability” (www.oecd.org/puma 17/11/98). Service quality initiatives include consultation mechanisms, setting service standards, the provision of information to citizens and clients, the provision of choice, the development of complaint and redress mechanisms, and the development of quality management and quality awards (www.oecd.org/puma 17/11/98). Service Quality is no longer a separate item in the current work program but has been subsumed in the e-government program.

PUMA is an international forum for top officials responsible for the central management systems of government, and has acted as an agent in the transfer of ideas and in documenting the reform experience in member countries. Australian officials have been active participants in this network and the Australian experiment features in many of the comparative case studies of NPM experience.

PUMA’s perspective has been explicitly managerial (OECD 1987, 3). Whilst member countries have similar concerns, comparative studies reveal a diversity of approaches in practice. This is evident even in the NPM heartlands of UK, NZ, Australia and the USA, reflecting differences in timing and political and institutional contexts (PUMA 1995, 1996a & 1996d; Pollitt & Bouckear 2000; McGuire 2002).

| Date | Events & Reports |
|--|---|
| 1987 | <p><i>Administration as Service, the Public as Client (OECD 1987)</i> Report Based on consultation and a survey of initiatives in 17 countries.</p> |
| 1990 | <p>Establishment of the OECD's Public Management Committee and Public Management Service (PUMA). Public Management Committee is a forum for top officials of government and central agencies. Public Management Service Secretariat provides information, analysis, assessments and recommendations on public management; exchanges good practice and report on issues and developments.</p> |
| 1992 | <p><i>Public Management in OECD Countries (PUMA 1992)</i> OECD Country Information pages Australian Profile of government and administrative structures.</p> |
| 1994 | <p><i>Performance Management in Government: Performance Measurement and Results-Oriented Management (PUMA 1994)</i> PUMA Occasional Paper No. 3 Prepared by David Shand (Australia) with major assistance of Dr Gert Bouckaert (Professor Public Management) and Sylvie Trosa (DoFA Australia). Part One highlights the difficulties in developing good performance measurement systems. Part Two compares different OECD countries performance management systems.</p> |
| Service quality is defined as follows (p. 38): | |
| <p>In the broadest sense, quality of service is the extent to which the nature of the output and its delivery meet requirements or are suitable to their purpose. In this sense, quality would encompass programme effectiveness. However, it is generally used in a narrower sense in terms of meeting more immediate direct needs of users, such as timeliness, accessibility, accuracy and continuity of services and level of comfort and courtesy in obtaining service. As such, it relates to quality of service delivery rather than of service outcomes.</p> | |
| 7-8 November | <p><i>Service Quality Initiatives (PUMA 1996b)</i> PUMA Symposium Sir Kenneth Bloomfield, Chairman of the Chief Executives Forum of Northern Ireland, United Kingdom, chaired the Symposium. David Shand (Australia) organised the symposium and edited the papers.</p> |
| 1995 6-7 June | <p><i>Performance Auditing and the Modernisation of Government (PUMA 1996c)</i> PUMA Symposium Chaired by Auditor-General of Sweden.</p> <p><i>Government in Transition, Public Management Reforms in OECD Countries (PUMA 1995)</i> Report No single best model of public sector management, but identified common reform trends, some inspired by best private sector practice adapted to public sector needs. Two elements of public service reform strategies identified:</p> <ol style="list-style-type: none"> 1. Focus on results in terms of efficiency, effectiveness and quality of service 2. Replacing centralised hierarchical structures with decentralised management <p>Identified five key principles including client-orientation to make government more performance-oriented.</p> |

| Date | Events & Reports |
|-----------------|--|
| 1996 March | <p><i>Ministerial Symposium on the Future of Public Services (PUMA 1996a)</i> First PUMA Ministerial Meeting Identified seven ways OECD countries have responded to pressures for change in the role and structure of government:</p> <ol style="list-style-type: none"> 1. Decentralisation 2. Re-examination of what government should do and pay for 3. Downsizing 4. Consideration of more cost effective ways of delivering services such as contracting out, market mechanisms and user charges 5. Customer orientation, including explicit quality standards for public services 6. Benchmarking and measuring performance 7. Reforms designed to simplify regulation and reduce its costs <p><i>Responsive Government: Service Quality Initiatives (PUMA 1996b)</i> Report Papers from 1994 Symposium edited by David Shand. Examined service quality initiatives in OECD member countries and identified five issues (p. 11):</p> <ol style="list-style-type: none"> 1. Role of client choice 2. Extent of client consultation and participation 3. Effective use of complaint and redress mechanisms 4. Provision of information on services, particularly the measurement of and accountability for service performance 5. Impact of service quality initiatives on inter-governmental relations <p>Identified two key issues in managing service quality performance (p. 34):</p> <ol style="list-style-type: none"> 1. How do we measure and evaluate the actual level of performance (SQ)? 2. How do we make the actual level of performance count for something and ensure that performance improves? <p><i>Performance Auditing and the Modernisation of Government (PUMA 1996c)</i> Report Overview of papers by Michael Barzelay (Chapter 1 Role and Strategies Central Audit) and David Shand & Paul Anand (Chapter 2 compares approaches in OECD Countries) Identified increased evaluation by external performance review bodies and expanded scope of external national audit institutions.</p> <p><i>Performance Management in Government: Contemporary Illustrations (PUMA 1996d)</i> Public Management Occasional Papers No. 3 Chapter 3 Benchmarking in Public Sector Management by Sylvie Trosa and Suzanne Williams.</p> |
| 4-5 November | <p>Meeting Performance Management Network, Chaired by Dr Sylvie Trosa, Department of Finance Australia Considered contemporary developments in performance management by examining experience in selected countries. Papers and commentaries published in report <i>Benchmarking, Evaluation and Strategic Management in the Public Sector (PUMA 1997d)</i></p> |
| 1997 | <p><i>Issues and Developments in Public Management: Survey 1996-97 (PUMA 1997a)</i> Report Reported on significant developments in OECD member countries and on issues and developments that practitioners saw as important.</p> <p>Three key issues were identified:</p> <ol style="list-style-type: none"> 1. Re-examining role of government 2. Clarifying accountability of devolved institutions 3. Building strategic policy coherence |

| Date | Events & Reports |
|-------------------|--|
| 1997 cont. | <p data-bbox="562 278 1649 628"> <i>In Search of Results: Performance Management Practices (PUMA 1997b)</i> Survey of performance management developments in ten OECD countries: Australia, Canada, Denmark, Finland, France, the Netherlands, New Zealand, Sweden, the United Kingdom and the United States. Performance management is defined as a set of reforms under which public organisations are given increased autonomy in exchange for accountability for results. Chapter I Overview and Synthesis (Dr Geert Bouckaert) Country chapters prepared by PUMA Summary table compares individual countries on relative importance of objectives, approaches and instruments. </p> <p data-bbox="562 672 1649 808"> <i>Accountability and Public Organisations: Responsiveness to Politicians, Customers and Market Forces (PUMA 1997c)</i> Meeting senior officials responsible for Public Management in Paris 24-25 November Chairman Alan Winberg, Assistant Secretary Treasury Board Secretariat Canada </p> <p data-bbox="562 847 1649 1264"> <i>Benchmarking, Evaluation and Strategic Management in the Public Sector (PUMA 1997d)</i> Chairman's Summary (Dr Trosa, Department of Finance Australia) Report Most countries benchmark the private sector because it offers the most challenging standards, as well as greater credibility with the public. Part I Benchmarking as a tool for Performance Management Part II Evaluating Public Management Reform Part II Developing Strategic Result Indicators and Linking with Departmental/Agency Planning Part IV The Contract Agency Approach as an Illustration of Performance Management </p> <p data-bbox="562 1303 1649 1548"> <i>Managing Across Levels of Government (PUMA 1997e)</i> Report Examines the concept of governance in relation to public management reforms and inter-governmental relations. 26 country case studies (including Australia) map the evolving distribution of functions, powers and resources between different levels of government. </p> |
| 1998 | <p data-bbox="562 1581 1649 1754"> 20th Session of the Public Management Committee 28-29 October (PUMA 1998a) PUMA Budgetary and program reductions as part of general OECD downsizing. Shift in work focus to governance issues. New mandate identified four directions for future work including "institutionalising transparency, honesty and accountability into government". </p> <p data-bbox="562 1792 1649 1865"> <i>Public Management Reform and Economic and Social Development (Keating 1998)</i> Report prepared by Dr Michael Keating, Australia </p> <p data-bbox="562 1903 1649 2076"> Identified four strategies to make government more client-oriented (p26): <ol data-bbox="620 1934 1238 2076" style="list-style-type: none"> 1. Setting standards of service 2. Administrative law developments 3. 'Whole-of-client' approach to service delivery 4. Opening service delivery to competition </p> <p data-bbox="562 2114 1649 2145"> <i>1998 Australia Report on Recent Public Management Developments (PUMA 1998a)</i> </p> |
| 1999 September | <p data-bbox="562 2210 1649 2349"> <i>Government of the Future: getting from here to there (PUMA 1999a)</i> Symposium <i>Synthesis of Reform Experiences in Nine OECD Countries: Government Roles and Functions, and Public Management PUMA/SGF(99)1.</i> </p> |

Appendix F OECD PUMA Reports

| Date | Events & Reports |
|-------------|-----------------------------|
|-------------|-----------------------------|

1990 cont.

Opportunity, Strategy, and Tactics in Reforming Public Management (Schick 1999)

Identified similar objectives but country specific strategies and tactics.

Four different strategies (para 36):

1. Market driven (rely on competition and contracting)
2. Managerial (rely on professionalism and skills public service)
3. Program review (rely on policy analysis and evaluation to reallocate resources)
4. Incremental deregulation (relies on review of rules and practices)

Integrating Financial Management and Performance Management (Pollitt 1999)

Report prepared by Professor Christopher Pollitt

Lessons from Performance Contracting Case Studies: A framework for Public Sector Contracting (PUMA 1999b)

2000

Restructure PUMA which now stands for 'Public Management and Governance' (PUMA 2000)

Changed PUMA programme name from OECD Public Management Service 'Public Management and Governance' Objective is to assist governments in building and strengthening "effective, efficient and transparent government structures by supporting managerialist reforms in OECD countries.

The change reflects an increased focus on governance issues since 1998.

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Abstract

This article examines the transfer of NPM strategies by comparing Service Charter initiatives in the United Kingdom, United States and Australia. These three countries, together with Canada and New Zealand, are part of what has been described as the 'core' new public management (NPM) policy community (Common 1998). Service Charters are an NPM strategy intended to change the culture of public service delivery to focus on the needs of the users, identified as 'clients' or 'customers'. The objectives are to make service providers more responsive to users by guaranteeing specific standards for service delivery, providing a substitute for competition and a benchmark for measuring service quality.

The first section examines the historical and political context of the development of the Citizen's Charter and Service First programmes in the UK, customer service plans in the USA and Government Service Charters in Australia. The second section explores the similarities and differences between these charter initiatives based on analysis of public documents. There is evidence of convergence at the ideological level as managerial values underpin the service charter frameworks in all three jurisdictions (Walsh 1994; Pollitt 1995; Kettl 1997). Despite drawing from a similar toolkit influenced by private sector techniques, significant differences between the country contexts have resulted in divergent strategies. Timing in the three countries examined suggests that national politics rather than global policy convergence is more significant in explaining the development of service charters. This case study provides evidence of policy transfer rather than policy convergence (Common 1998).

The final section considers the limitations of the customer service model. Monitoring quality is central to the programmes in all three countries. Performance monitoring is essentially a quantitative methodology that requires criteria and indicators for measuring the quality of service delivery and programme outcomes. Two problems are considered. The first is the difficulty of specifying and measuring service quality. The second is that quality indicators derived from services marketing and management research do not take into account the characteristics of public services.

Key words

Service charters, customer service model, service quality indicators, policy transfer, new public management

SERVICE CHARTERS – GLOBAL CONVERGENCE OR NATIONAL DIVERGENCE?

A comparison of initiatives in
Australia, the United Kingdom
and the United States

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RESPONSIVE GOVERNMENT – 'DOING MORE WITH LESS BUT DOING IT NICER'¹

Services to the community are a substantive part of government budgets and public policy. Community demand for public services is increasing and governments face resource constraints arising from the pressure to achieve budget surpluses. The demand is for greater value, that is better services at lower cost. The choice is stark, governments have to increase productivity and service quality or reduce services. At the same time, recipients of public services or their advocates increasingly expect to participate in the design and delivery of public services (O'Faircheallaigh *et al.* 1999). Together, this has created pressure for substantive changes in the funding and delivery of public services to increase efficiency, effectiveness and responsiveness to users. Governments have responded to these pressures with public management reforms intended to improve performance by making service providers more accountable for results achieved. Performance management is the foundation of what has become known as New Public Management (NPM) (Hood 1991; Pollitt 1995; Hughes 1998). Governments want to improve quality and cost-effectiveness of public services for the benefit of users or clients, taxpayers and the community.

Since 1990, the OECD's Public Management Committee (PUMA) reports, analysing and evaluating public management developments in member countries, have supported managerialist reforms including service quality initiatives (PUMA 1994, 1996, 1997, 1999b). In March 1996 the OECD held its first ministerial meeting on public management chaired by Alice Rivlin, then director of the US Office of Budget and Management (Osborne and Plastrik 1997: 8). The summary report of that meeting identified a number of similarities in public management reform in member countries. These included decentralization; re-examining the role of government (what it should do and pay for); downsizing; contracting, market mechanisms and user charges; customer orientation including explicit quality standards for public services; benchmarking; and simplifying and reducing the costs of regulation.

Service Charters are in essence a quality assurance strategy that offers a type of consumer guarantee. An explicit objective is to improve the responsiveness of public services providers to clients or users. The UK Citizen's Charter pioneered the application of consumerism to public services (Walsh 1994). Despite the title, the Citizen's Charter conceived of consumers of public services as customers rather than citizens. PUMA has had a role in disseminating the UK experience in developing the first comprehensive Service Charter initiative. Customer service plans, introduced in the USA in 1993 by the Clinton Administration, and the Australian Government Service Charters introduced by the Howard Government in 1998, were both influenced by the Citizen's Charter.

The Service Charter initiatives are based on a common idea of extending the market logic of consumer sovereignty to public services provision (Pollitt 1994; Walsh 1994). There are essentially two approaches to increasing the sovereign power of consumers

of public services. The first is to make providers more responsive to consumers by consultation and more accountable to government and the community through performance monitoring. Consumer power depends on the effectiveness of voice mechanisms. The second approach is to make providers more responsive to consumers by providing consumers with choice based on competition between providers of public services. Despite the rhetoric of choice, Service Charters generally rely on voice mechanisms in the form of monitoring performance against specified standards and complaint mechanisms. Service Charters programmes have incorporated a range of quality assurance techniques including setting service standards, consultative mechanisms, providing information to citizens and clients, complaints and redress mechanisms and quality awards.

Three countries were selected for a comparative analysis of the transfer of Service Charters as an NPM strategy. Australia, the UK and the USA (together with Canada and New Zealand) are part of what has been described as the 'core' new public management policy community (Common 1998). Figure 1 summarizes the phases in NPM reform in each country. Figure 2 illustrates the timing of the Service Charter programmes in each country. The analysis was based on examination of public documents including official reports, OECD reports and comparative studies and independent evaluations. The documentary sources of evidence are summarized in Table 1.

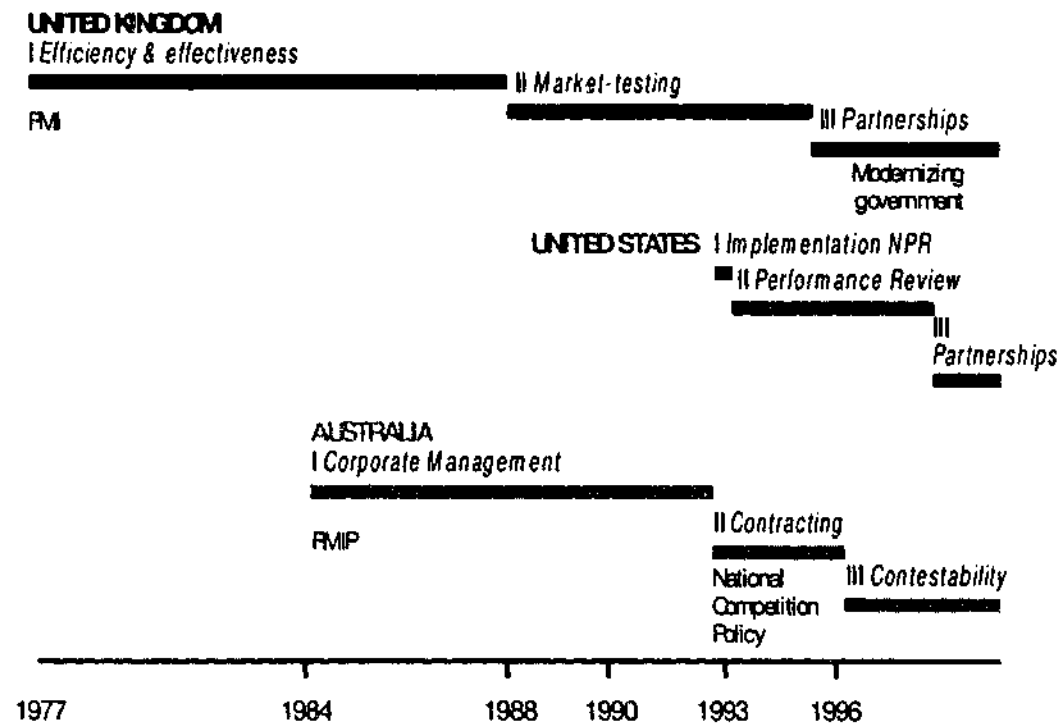


Figure 1: Phases of NPM reform

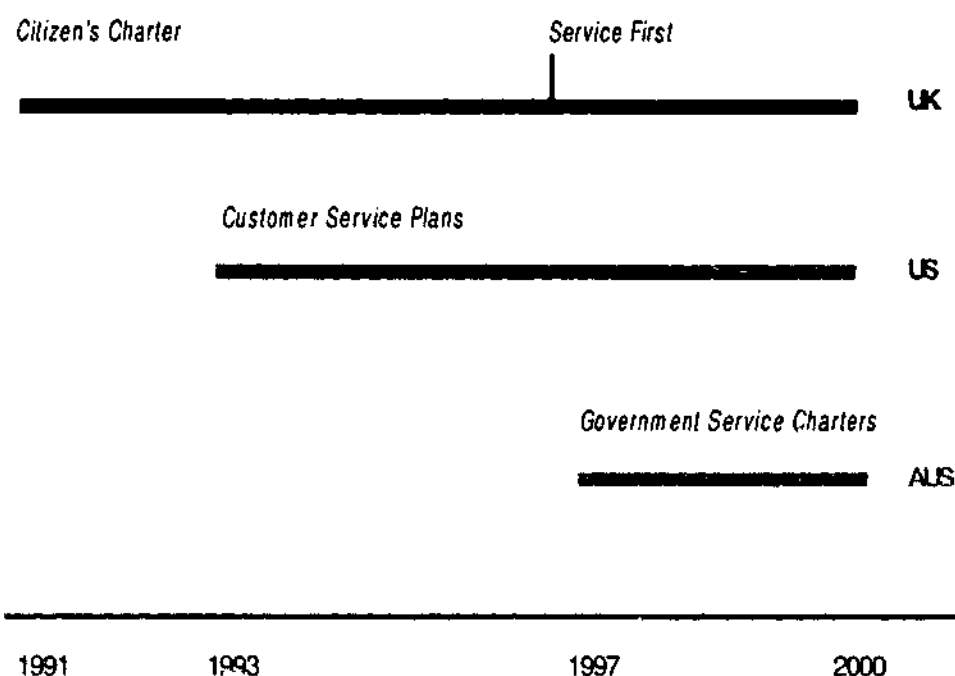


Figure 2: Service Charter initiatives

Table 1: Documentary sources for country analysis

| United Kingdom | United States | Australia |
|--|--|--|
| Service First website: www.servicefirst.gov.uk/ | National Partnership for Reinventing Government website: www.npr.gov | Service Charters Unit, Competitive Tendering & Contracting Branch, Department of Finance and Administration website: www.ctc.gov.au/charters/ |
| OECD PUMA Public Management Profiles 1992 PUMA (1996) Survey <i>In Search of Results</i> PUMA Public Information on the United Kingdom 1998 Schick (1999) Cabinet Office (1999) | OECD PUMA Public Management Profiles 1992 PUMA (1996) Survey <i>In Search of Results</i> PUMA Public Information on the United States 1998 Schick (1999) | OECD PUMA Public Management Profiles 1992 PUMA (1996) Survey <i>In Search of Results</i> PUMA Public Information on Australia 1998 Schick (1999) |
| External evaluation Institute for Policy Research evaluation (Boyne 1996) | External evaluation Brookings Institution's Centre for Public Management evaluation (Kettl 1994, 1997) | Internal evaluation Special Minister of State (Ellison 1999) |

UNITED KINGDOM: CITIZEN'S CHARTER – 'RAISING THE STANDARDS'

The United Kingdom has the longest history of new public management reforms of the three countries in this study, and was the first to implement Service Charters. A chronology of the development of the Citizen's Charter programme in the context of NPM reform from 1979 to 1999 is provided in Appendix 1. Citizen's Charter, John Major's first initiative on becoming Prime Minister, was a part of a second and more radical wave of administrative reform. This followed a decade of reform instituted by Margaret Thatcher's Conservative government under the Financial Management Initiative (FMI). The second phase commenced in 1988 with the introduction of Next Steps Executive Agencies, which sought to separate policy and service delivery and introduced market-based strategies to break the monopoly position of public service providers. Clear accountability for performance was a central element of Next Steps as separation of executive agencies and contracting required new forms of accountability. The Citizen's Charter added measures aimed at changing the focus of public services from the requirements of providers to users designated as customers (Bynoe 1996). The principle of responsiveness to users was central to Citizen's Charters (Keeble 1996).

Charters were used before 1991 but mainly in local government authorities (Walsh 1994). Charters were conceived of as a consumer contract guaranteeing service standards.² Users of public services are explicitly recognized in Charters as consumers with the rights to specified standards and redress if these standards were not met. The Citizen's Charter, introduced as a ten-year programme, was based on six principles for serving the public called the 'Six Whitehall Standards' – setting standards, information and openness, choice and consultation, courtesy and helpfulness, putting things right and value for money. These principles reflected four themes of quality, choice, standards and value for money (Bynoe 1996). The Charter applied to the whole of the public sector and to privatized utilities. A Charter Mark award scheme was introduced in 1992 to promote excellence and has subsequently been adapted by other OECD countries including the USA, Canada, France, Belgium and Italy (Osborne and Plastrik 1997: 195). To win a Charter Mark, agencies had to demonstrate that service met the six principles, as well as user satisfaction with service delivery and measurable and demonstrative improvements in service quality. Service providers were required to reapply for Charter Marks after three years. In the first year thirty-six Charter Marks were awarded and by 1996 the number increased to 417 (Keeble 1996). Charter Mark award winners were given a high profile within the civil service.

Citizen's Charter had high-level political support, being introduced and championed by the Prime Minister John Major. A new unit was created in the Office for Public Service, the central agency responsible for public service policy to implement the Citizen's Charter programme. The Unit's role was to spread best practice, monitor and report progress and administer the Charter Mark scheme (Bynoe 1996; Keeble 1996). The Audit Commission role in developing indicators for local authorities and the NHS

was essential in implementing Charter policy (Bynoe 1996). The private sector also had direct influence. The Citizen's Charter Unit worked closely with the Prime Minister's Charter Advisory Panel. Six panel members were drawn from the public and private sectors and the chair was the CEO of Boots plc (Keeble 1996).

Citizen's Charter has a high public profile within the civil service but the public impact is harder to assess. More than forty national and 10,000 local Charters have been developed since 1991 (OECD 1999 UK Perspective). Evidence of its contribution to improving public services by changing the culture of agencies to focus on service recipients was recognized by the National Audit Office, Public Service Committee and National Consumer Council Survey. However national Charters were generally published without systematic public consultation (Bynoe 1996). The National Consumer Council identified effective consultation with users as the single most important issue for Charters. Critics argue that standards reflected provider rather than consumer concerns, and Charter services frequently failed to deliver even on these. An extensive evaluation by the Institute for Public Policy Research was critical of the narrow scope of the customer perspective and proposed a new programme based on six social rights principles of fair treatment, entitlement, participation, openness, accountability and co-operation and, effective public accountability through audit and inspection (Bynoe 1996).

UNITED KINGDOM: SERVICE FIRST - 'RESPONSIVENESS'

With the election of Tony Blair's New Labour government in 1996, at least the rhetoric of public management changed from 'value for money' to 'partnerships' (Richards 1996). After a year in review, Citizen's Charter became Service First as part of the broader Better Government programme covering the entire public sector. A new audit team to monitor quality and a review of all existing Charters were part of the package. Nine principles of public service delivery replaced the six Whitehall Standards (see Appendix 1). Key themes were identified as partnership, responsiveness to users, accessibility, more effective use of resources, fair treatment and innovation. A Service First Unit to co-ordinate implementation was again located in the Cabinet Office. One innovation was the establishment of a People's Panel of 5,000 members of the public selected at random. Set up by MORI and Birmingham University's School of Public Policy, the panel is to be surveyed and consulted about service delivery improvement and the effectiveness of public management reforms.

The revised Charter has been influenced by experience abroad. The Service First Unit apparently used Australian Charter guidelines as a reference in developing the new Charter programme (Service First Newsletter Issue 2 July 1998). There is an apparent shift to external performance monitoring. Central monitoring of perform-

ance is a feature of the 1999 Modernizing Government White Paper, with the establishment of a new Cabinet Committee. The focus of comprehensive spending reviews of all central agencies and local government services is to be on outcomes, taking into account customers' views. A benchmark has been set of a 5 per cent improvement in satisfaction by April 2000.

UNITED STATES: CUSTOMER SERVICE PLANS – 'PUTTING CUSTOMERS FIRST'

Customer service plans rather than Service Charters are the basis of the US responsiveness strategy. However, these plans draw on similar techniques. A chronology of the development of customer service plans in the context of NPR reform from 1992 to 1999 is provided in Appendix 2. The USA was a relative latecomer to NPM, with the Clinton Administration's National Performance in 1993. NPR has been identified as one of the three most important administrative reform initiatives of the twentieth century in the USA (Kettl 1994, 1998).³ Similarly to the UK there are identifiable phases linked to political events. Kettl (1998) identified three phases of reform. Phase I 'Reforming Government Processes' in 1994 focused on implementation. An Executive Order⁴ that all federal agencies develop customer service plans was one element of the reinventing package. However, downsizing government was the dominant theme of this phase. Phase II 'Questioning What Government Should Do' followed the 1994 mid-term congressional elections which resulted in Republican control of the legislature. Phase III 'Reinvigorating the Reinvention', commencing in 1998, shifted the focus to high-impact agencies, outcome measurement, appealing to citizens and positioning the Vice President for the 2000 presidential elections.

President Clinton's 1993 Executive Order mandated that all federal agencies develop customer service plans, but downsizing and cost savings are the keystones of NPR. Kettl (1994, 1998) argues that the tension between these elements explains the mixed results and is an enduring problem. Agencies are required to develop service standards and use customer surveys, in what are called customer service plans rather than Service Charters. NPR, including customer service plans, is separate from the performance-based management system introduced by the Government following the passage of the Performance Results Act (GPRA) by Congress in 1993. Responsibility for GPRA resides with the Office of Management and Budget. Despite the President's 1995 Directive *Improving Customer Service*, which tied customer service to strategic planning and the GPRA (Gore 1997), NPR has been effectively marginalized from performance management (Kettl 1998).

NPR has had high-level political support from the President and strong, sustained leadership by Vice President Gore. In contrast to the UK, it was not part of a more

comprehensive civil service reform (Kettl 1998). In the UK parliamentary system, John Major had the necessary control of the parliament to legislate reform. The Clinton Administration did not have congressional support after the 1994 mid-term elections and NPR was attacked by a hostile Congress. The Citizen's Charter had some influence on the NPR customer service plans (Kettl 1994), but NPR grew more directly out of Osborne and Gaebler's (1992) best seller *Reinventing Government* which enunciated ten principles for entrepreneurial government. The language of management and ideas from the private sector underpin this manifesto. David Osborne worked closely with the Progressive Policy Institute and advised the Clinton-Gore administration (Kettl 1998). The NPR reports provide ample evidence of 'borrowing from the best in business', including the language of management and marketing.

Setting service standards and making agencies more responsive to customers has shifted the focus from internal processes to agency objectives and people served, which has encouraged a focus on the needs of citizens rather than administrative convenience (Kettl 1998). In contrast to the UK Charter Mark, the 'Hammer Awards' scheme relates to NPR principles rather than service standards specifically. The Internal Revenue Service (IRS) and US Postal Service were the first agencies to publish customer service standards. By 1997, 4,000 standards for 570 federal agencies and programmes had been developed (Gore 1997). NPR's customer service focus has transformed the way some government agencies approach citizens, in particular the Social Security Administration and Customs Service (Kettl 1998). Many agencies reported increased customer satisfaction, however the results are mixed. A Fifth Year Report Card, prepared by the Brookings Institute (Kettl 1998), gave NPR an overall B grade and a B+ for customer service, noting important accomplishments in some agencies but major failures in others (in particular the IRS). This same report also observed limited public awareness of service standards and argued the narrow focus on managerial improvements 'failed to penetrate the consciousness of citizens and the media' (Kettl 1998).

As part of the attempt to reinvigorate reform, NPR was rebadged National Partnership for Reinventing Government with a new slogan *America@Its Best*. The October 1998 initiative *Look Who's Talking Now: Conversations with America* appears to be a direct response to the lack of public awareness of customer service plans. In contrast to the formality of the UK People's Panel, this requires agencies covered by the original Executive Order to consult directly with customers, implement complaint mechanisms (in the original 1993 Order) and report annually on performance. There was no systematic external monitoring before 1998. External benchmarking is being undertaken using the American Customer Satisfaction Index (ACSI). This is a national indicator developed by the University of Michigan Business School used to benchmark customer satisfaction for private companies since 1994. ACSI is being applied to thirty customer segments of twenty-nine federal agencies to monitor satisfaction and benchmark public services against the private sector. The first survey reported a similar

spread of scores for the public and private sectors (see Appendix 2), and that including the government sector increased the overall US score by 2 per cent.⁵

AUSTRALIA: GOVERNMENT SERVICE CHARTERS – 'PUTTING SERVICE FIRST'

As in the UK and the USA, there have been a number of different phases in public management reform in Australia. A chronology of the development of government Service Charters in the context of NPM reform from 1983 to 1999 is provided in Appendix 3. In pursuit of more efficient and effective services there has been a fundamental shift from traditional financial accountability for budget expenditure to accountability for results. Responsiveness has been pursued by strategies to change the focus of service delivery to a 'customer orientation', including setting quality standards for public services, benchmarking and measuring performance (DoF 1994; OECD 1996). Government Service Charters were not introduced nationally until 1997.

Performance management has been central to new public management reform in Australia since the election of the Hawke Labour government in 1983 (McGuire 1990). The Financial Management Improvement Programme (FMIP) introduced in 1994 was modelled in part on the United Kingdom's FMI. In the first phase the focus was on corporate planning and programme budgeting. Efforts to link programme evaluation and performance monitoring to budget reporting were impeded by inadequate performance indicators, in particular for quality (MAB-MIAC 1992). Service Charters were not a feature of this era, which was characterized as a combination of top-down (strategic control) and bottom-up (internal implementation by agencies). Accountability for performance was reflected in the language of 'managing for results' through evaluation and performance monitoring, linking budgets to performance outcomes and 'letting the managers manage' through devolution of responsibility.

A substantive policy shift occurred in 1993 when the Government decided to apply National Competition Policy to the public sector (O'Neill and McGuire 1999). Initially the reform concentrated on government business enterprises but gradually competition policy was extended to community services (IC 1995, 1996). Increasing application and scope of contracting in this second phase changed the focus of evaluation from internal monitoring to external auditing. Service agreements between different levels of government and contracts with service providers formalize resource allocations and evaluation criteria. Significant in this phase was the establishment of a committee to develop a framework for monitoring the performance of community services. In a series of reports since 1995 the Productivity Commission, acting as the secretariat for the committee, has developed performance indicators including quality and reported on comparative performance of the states.⁶ However, the OECD observed that Australia lagged behind other OECD countries, notably Canada, the UK

and the USA, in the development of Service Charters, service quality standards and customer surveys (OECD 1996; PUMA 1997).

Public management reform accelerated in scale and scope following the election of the Howard Conservative coalition government in 1996, which adopted the recommendations of the National Commission of Audit and extended the application of contestability and market-testing of public service delivery. Contracting, separation of funding and service delivery and competition between service providers are the preferred strategies of the Howard Conservative government. Service Charters were one strategy rather than a central feature of this third phase of reform. Until 1997 development of Charters by federal agencies was ad hoc. The Australian Taxation Office and Child Support Agency developed Charters in response to a parliamentary and Audit Office inquiries.

Putting Service First is the title of the government Service Charter programme announced by the Prime Minister in 1997. All Commonwealth agencies dealing directly with the public were required to identify their 'customers' and develop a Service Charter. Implementation was delegated initially to the Minister for Customs and Consumer Affairs and the Department of Industry, Science and Tourism, which held the consumer affairs portfolio. Charters are intended to guarantee specific standards for service delivery for customers and stakeholders, and provide a substitute for competition and a benchmark for measuring service quality (DIST 1997a). *Putting Service First -- Principles for Developing a Service Charter* sets out nine principles for developing, monitoring and reviewing Service Charters (see Appendix 3). Three key features identified in the principles are similar to the UK and US initiatives:

- (1) A clear statement to the customer of standards of service which can be expected.
- (2) A clear statement to the customer of who is responsible if service is not provided at the level promised.
- (3) Guidance to the customer as to how to access a complaints mechanism if something goes wrong.

Service Charters are intended to assist agencies to focus on outputs, define criteria for assessing performance in delivering outputs and benchmarking service quality (MAB 1997). Agencies are required to report on Charter development, complaints mechanisms and performance in their Annual Report to Parliament. Non-government agencies delivering publicly funded services are not required to develop Service Charters. A detailed guide prepared by the Service Charter Implementation Unit to assist agencies in developing Service Charters provided examples of existing Charters in Australia and the United Kingdom. AAMI, Taxpayers Charter and the CSA Charter feature prominently in the guide (DIST 1997b).

Support for the development of Charters came from the Commonwealth Ombudsman and the Australian Competition and Consumer Council (ACCC) rather than Treasury and Finance, the central agencies responsible for co-ordinating management

reform. The Department of Finance and ANAO, while supporting the idea of Charters to monitor and improve standards of service, recognized the limitations when standards are limited to service delivery rather than outcomes (DoF 1995; SFPARC 1995; Trosa 1997).

The Minister for Customs and Consumer Affairs had responsibility for overseeing the implementation of Service Charters across the APS, monitoring and reviewing progress and providing a 'whole of Government' report. A Service Charters Implementation Unit in the Department of Industry, Science and Tourism was established to co-ordinate the implementation of Service Charters across the APS and provided assistance to agencies. Implementation of Service Charters was actively pursued in 1997 following the publication of an implementation timetable (DIST 1997c). In the portfolio restructure that followed the re-election of the Howard government in 1998, responsibility for Service Charters was transferred to the Contracting and Competitive Tendering (CCT) Branch in the Department of Finance and Administration. The Service Charters Implementation Unit was transferred to the CCT branch, but separated from the consumer affairs programme that was transferred to Treasury.⁷

There has been no substantive external review of government Service Charters. All agencies are required to conduct an external performance audit against Charter objectives every three years, however the first audits are due in 2000. Agencies are required to report annually to the Department of Finance and Administration on their performance against the Charter. DoFA is required to provide a whole-of-government report to the Prime Minister. The first report, due in December 1998 was finally published in October 1999. This two-year whole-of-government report of twenty-six pages provided a statistical summary and case studies of implementation rather than an evaluation of the impact of Service Charters, but did foreshadow a review of the principles (Ellison 1999).

Australian developments have also been influenced by ideas from abroad and the private sector. Citizen's Charter and the private insurance company AAMI's Customer Charter both feature as case studies in the guidelines. The Department of Finance and Administration has been an active participant in OECD projects and comparative studies (PUMA 1994, 1996, 1997). The Society of Consumer Affairs Professionals and TARP, a private consultancy headquartered in the USA with links to Karl Albrecht, a consultant and author on service management, also had some influence in the development of the guidelines and training packages. The framework in the toolkit identifies five best practice principles for quality customer service based on private sector research (MAB-DIST 1997).⁸ While adopting principles of customer service from the private sector, the development of Charters for public services has greatly exceeded service guarantees in the private sector. Service guarantees, advocated by the ACCC since 1995, are not common practice. AAMI's Customer Charter introduced in 1996 was a first in the private sector.

Charters have been developed at the federal portfolio, agency and programme levels. Policy agencies and functions are exempt from developing a Service Charter.

Progress has varied considerably between agencies. Comments in many department and agency annual reports are restricted to progress on development of Charters. The Public Service Commissioner reported significant progress with ninety Charters developed by June 1998 (PSC 1998). This report described service delivery improvements attributed to Charters arising from customer feedback, improvement to meet Charter service standards, new and improved complaints handling systems, reductions in process and waiting times and an increased willingness to apologize personally and publicly for mistakes.

The whole-of-government report by the Special Minister of State in November 1999 recorded 125 completed Charters (88 per cent of the total required) but only 44 per cent had reported on performance information in their Annual Reports (Ellison 1999). Not surprisingly service standards in Portfolio Charters are vague. In contrast Agency Charters tend to have more explicit standards. Standards relate to process quality (how services are provided) rather than technical quality of services delivered (outputs). Service Charters are codes of conduct rather than service guarantees. Service Charters do not confer legally enforceable rights on customers. Any such rights are set out in legislation, for example the taxation legislation.

Service Charters have led to the widespread adoption of internal complaint mechanisms. The 1997-8 Annual Report of the Commonwealth Ombudsman reported a clear trend towards better complaints handling in public service agencies, attributed to Service Charters. The Australian National Audit Office also reported improvement in complaints handling, but noted less improvement in the willingness of public servants to explain adequately the reasons for decisions (PSMPC 1998). The early emphasis on developing complaint mechanisms is a distinctive feature of the Australian Service Charters. By 1999, 89 per cent of Charter agencies had operating complaints systems and 77 per cent reported complaint statistics (Ellison 1999). In contrast to the United Kingdom and the United States, Australia has long established new administrative law mechanisms including review of decisions by quasi-judicial tribunals, Freedom of Information legislation and independent Ombudsmen.

The next section compares the experience of the three countries in developing Service Charters. Significant differences between the country contexts have resulted in divergent strategies and Service Charter frameworks. Historical analysis, summarized in Figures 1 and 2, suggests that national politics rather than global policy convergence is more significant in explaining the development of Service Charters in each jurisdiction. This supports Schick's (1999) contention that reform is an amalgam of opportunity (which is country specific), strategy and tactics.

POLICY CONVERGENCE OR DIVERGENCE?

This brief and selective interpretation of the implementation of Charters and customer service plans reveals similarities and differences that are summarized in Table 2. There

is evidence of convergence at the ideological level as managerial and consumer values underpin Service Charters and customer service plans. This is reflected in commonality of language and purpose (Kettl 1994, 1998; Walsh 1994; Boyne 1996). Responsiveness to users or customers and improving service delivery through transparency and accountability are a guiding principle in the Charters and customer service plans initiatives. The transfer of ideas is apparent in policy documents and comments by policy makers. Undoubtedly OECD forums have played a role in this transfer. All three countries have been active participants in PUMA projects as well as providing regular comprehensive updates on public management reforms. Common argues: 'What appears to exist is a global policy community that disperses NPM in a piecemeal fashion to receptive political and administrative élites in individual countries' (1998).

The UK, the USA and Australia are all clearly part of an NPM international policy community that has shared ideas and experiences to deal with common problems. However this study supports Common's (1998) contention that policy responses to similar problems in countries at a similar stage of economic development are evidence of policy transfer not global convergence. Timing in the three countries suggests that national politics rather than global policy convergence is more significant in explaining the development of Service Charters. The nature and pace of the implementation of the initiatives are also clearly different. This is explained by different NPM reform strategies reflecting different political context and governance structures. NPM is hard to evaluate (Pollitt 1995) and it is difficult to separate out the impact of Charters or customer service plans. This study also provides evidence of tension between Charters or customer service plans and wider NPM reforms that Walsh (1994) and Kettl (1994) argue is inherent in the ideology.

Different strategies and tactics to implement NPM are evident in OECD country comparisons (PUMA 1999b; Kettl 1999, Schick 1999) and the experience with Charters in the three countries is consistent with this pattern. There is no single recipe for NPM, nor for consumer responsiveness. Divergent strategy is a feature of the strategic management literature generally, with country variations explained by differences in cultural values, institutional structures and timing or history (de Wit and Meyer 1999). Country-specific strategies are evident. Charters are one approach and customer service plans another. Timing is a significant explanation of differences, but so is the relationship to broader NPM reform. Citizen's Charter and customer service plans had high-level support and leadership, in contrast to Australian Service Charters. Strategic control by central agencies is more evident in the UK and Australia where Charters are tied more closely to performance management than customer service plans. In contrast customer service plans in the USA are separate from the GPRA performance management. Early development of complaint mechanism and more progress in reporting complaints in Australia contrasts with the UK and the USA. This probably reflects different administrative law traditions as Australia has had considerably more experience with new administrative law and already had well-established Ombudsmen and FOI systems.

Table 2: Comparison of Service Charter initiatives

| Comparative dimensions | United Kingdom | United States | Australia |
|--|--|---|--|
| Governance | 'Westminster' Parliamentary democracy within a unitary system Responsible government Parliamentary accountability | 'Washington' Republic within a federal system Federalism Bill of Rights & Constitution Divided accountability | 'Washminster' Parliamentary democracy within a federal system Hybrid (responsible government & federalism) Constitution Parliamentary accountability |
| Opportunity - New public management reforms | | | |
| Phases | <i>Phase I Efficiency & Effectiveness</i> (1977-88) Thatcher Conservative government FMI <i>Phase II Market-testing</i> (1988-96) Thatcher & Major Conservative governments Next Steps Agencies <i>Phase III Partnership</i> (1996+) Blair Labour Modernizing Government | <i>Phase I Implementation</i> 1993 NPR (Executive) 1993 GPRA (Executive & Congress) Clinton Administration <i>Phase II Performance Review</i> 1994-8 Clinton Administration <i>Phase III National Partnership for Reinventing Government</i> Clinton Administration 1998+ | <i>Phase I Corporate Management</i> 1984-93 Hawke Labour government FMIP & programme budgeting <i>Phase II Contract-based Management</i> 1993-6 Keating Labour government National Competition Policy <i>Phase III Contestability</i> 1996+ Howard Conservative government Effective Financial Management Contestability services Benchmarking private sector Top-Down & Bottom-up Department of Finance Management Advisory Board Management Improvement Advisory Committee |
| Implementation | Top-Down | Bottom-up | |
| Co-ordinating Agencies | Treasury & Cabinet Office (Office of Public Service) | Executive (NPR) Office of Management & Budget (GPRA) | Department of Finance Management Advisory Board Management Improvement Advisory Committee |
| Language | Phase I (1977-8) 'more for less' Phase II (1988-96) 'make the managers manage' Phase III (1997+) 'partnerships' | Phase I (1994) 'works better, costs less' Phase II (1994-8) 'what government should do' Phase III (1998+) 'search for political relevance' | Phase I (1984-93) 'managing for results' 'let the managers manage' Phase II (1993-6) 'managing for performance' Phase III (1996+) 'best practice financial management' |

| | | | |
|-------------------------------------|---|--|--|
| Performance Monitoring | FMIP & Next Steps Focus on efficiency & outputs | GPRA focus on outputs | FMIP focus on results (outputs & outcomes) Agencies (Phase I) Agencies & external (Phase II) Outputs (Phase III) |
| Responsiveness Strategy | | | |
| Service Charter(s) | Citizen Charter (1991-7) Service First (1997+) | Customer Service Plans (1994+) | No central initiative 1983-96 Government Service Charters 1997+ (renamed Client Service Charters in June 2000) Ministerial Policy Statement Service Charters championed by Minister of Consumer Affairs until relocated to Finance Portfolio 1998 |
| Political Support | White Paper Citizen Charter introduced by Prime Minister John Major Service First initiative introduced by Chancellor Duchy Lancaster | Presidential Order NRP championed by Vice-President Al Gore | |
| Co-ordinating Agency | Citizen's Charter Unit Cabinet Office Service First Unit Cabinet Office | | Service First Unit in DIST (1997-8) moved to CCT branch DOFA and renamed Service Charter Unit 1998+ |
| Responsiveness Tactics | | | |
| Service Standards | 40 national & 10,000 local Charters | 570 agencies & 4,000 standards | 125 agency & programme Charters |
| Performance Monitoring | Yes Audit Commission published indicators for local authorities | Yes Benchmarking using ACSI since 1998 | Yes Agency Annual Reports |
| Performance Reporting | Yes | Yes | Yes |
| Customer Surveys | People's Panel | Conversations with America | Agency-specific |
| Complaint Mechanisms | Recommendations of Task Force on Complaints (1995) adopted in Service First | Limited progress | Substantive implementation & reporting by agencies Supported by independent Ombudsmen and Australian Competition & Consumer Commission |
| Sanction for Non-performance | No legal obligations Limited compensation for consumers of some services (British Rail) | No legal obligations | No legal obligations Some links to legislative requirements |
| Internal Evaluation | Regularly Ministerial reports on implementation to parliament; parliamentary select committee | Regularly NPR Reports (1994, 1995, 1997) | One Ellison (1999) |
| External Evaluation | Pollitt (1994) Bynoe (1996) | Kettl (1994, 1998) | No |

Sources: OECD (1987) Australia, United Kingdom & United States Country Surveys; Kettl (1994, 1998); Bynoe (1996); OECD (1998) Australia, United Kingdom & United States Public Management Reports; Richards (1998); Kanminsky (1999) *NPR A Brief History* (<http://www.npr.gov/whoarewe/history.html>); Schick (1999); DoFA (no date) *Service Charters International Developments* (<http://www.ctc.gov.au/publications/charters/international.htm>).

Ideas travel easily in a global world but policy transfer should not be confused with globalization of strategy (Common 1998). A clearly articulated philosophy of managerialism and consumerism has driven public management reforms in the UK, Australia and the USA (Kettl 1994; Walsh 1994; Schick 1999). Objectives are similar in all three countries, but strategies and techniques are different. This study of Service Charters suggests policy transfer rather than convergent NPM strategy. Divergence reflects the influence of local conditions on attempts to resolve universal problems. There is scope for comparative research of actual implementation processes in the three countries to complement this study. This would be expected to provide further evidence of divergent strategies and tactics reflecting local influences.

Implementation in each of the three countries has drawn on private sector techniques, in particular for consumer surveys and service quality indicators. The language of Osborne and Gaebler reflected Peters and Waterman's earlier best seller *In Search Of Excellence*. This is the language of marketing and management which has limitations applied to public services (Walsh 1994). The next section considers the limits of the customer service model of responsiveness.

LIMITS OF THE CUSTOMER SERVICE MODEL OF RESPONSIVENESS

Meyers and Lacey suggest 'efforts to make public services more responsive to customers as the direct consumer of its products' (1996) rely on two main instruments, market contestability and providing consumers with a stronger voice. Charters and customer service plans are an attempt to empower consumers of public services by voice mechanisms. Effectiveness of Charters as a voice mechanism depends on transparency and openness of performance reporting and complaint mechanisms. Performance reporting relies on information including user surveys and is central to the initiatives in all three jurisdictions. Performance monitoring has become increasingly important as governments strive to demonstrate to an increasingly sceptical community that public services deliver value for money and agencies competing for funding to deliver public services are forced to compete on the basis of performance. Performance monitoring is essentially a quantitative methodology that requires criteria and indicators for measuring the quality of service delivery and programme outcomes.

There are two problems in relying on performance monitoring as a voice mechanism to improve client responsiveness. The first is the conceptual and technical complexity of monitoring service quality, which is a problem for setting standards and monitoring public and private services. The second problem is that quality indicators derived from services marketing and management research do not take into account the characteristics of public services (Walsh 1994, 1995).

QUALITY – AN IMPRECISE AND ELUSIVE CONCEPT

Quality is an abstract concept that eludes precise definition. There is widespread agreement that quality is an important performance criterion. In the private sector the concern is with the links between service quality, customer satisfaction and profitability as a measure of performance.⁹ However there is considerable debate about the precise nature of this relationship and consequently the appropriate measures for monitoring service quality. There are conceptual and technical problems in monitoring service quality (Carter 1991; Carter and Greer 1993). The origins of the approach are in TQM theories and practices developed for the private sector (Bynoe 1996; McGuire 1997). Quality relates to product attributes which for services resides in the activities and processes that are experienced rather than tangible objects that are possessed.¹⁰

Three different perspectives on service quality evident in the services marketing and management literature are summarized in Table 3.¹¹ Conformance to standards is a delivery process perspective that relies on quality assurance standards and indicators for performance management. Quality assurance and certification are two indicators of the reliability of processes. ISO accreditation systems, on time delivery and quality awards are different indicators. Customer perception is a consumer perspective on service delivery that relies on customer standards and satisfaction indicators. Service quality has technical and process dimensions. Technical quality relates to what is delivered, or the output. Customer service or process quality relates to the way services are delivered. Standards in Charters and customer service plans focus more on process quality than technical quality. Customer satisfaction indices are the most common indicator used to monitor performance. The third perspective, performance outcomes, is a provider perspective on quality. Standards and indicators are of performance defined as results against objectives. Customer loyalty and retention rates are used to measure the value (profitability) of customers to a service provider.

Service quality indicators recommended by consultants are generally based on only one of these perspectives. Different indicators result in service providers concentrating on different activities. Service indicators from a customer's perspective conflict with performance outcomes from a provider's perspective. This inherent tension is apparent in the NPM experience. More significantly, perspectives on service quality derived from services marketing and management research generally ignore the implications of the characteristics of public services for performance monitoring and indicators (Walsh 1991, 1994). Three characteristics of public services have implications for performance monitoring in general and service quality in particular (McGuire 1996). Public services have social as well as economic value. Indicators of social value are justice, equity and fair processes. The benefits of public services are consumed collectively by the community as well as privately by users. These are different stakeholders with an interest in performance which means service delivery has to be evaluated from multiple perspectives. Accountability tests are based on performance outcomes against

Table 3: Perspectives on service quality

| <i>Conformance to standards</i> | <i>Fitness for purpose</i> | |
|---|--|--|
| | <i>Customer (consumer) perceptions outcomes</i> | <i>Provider perceptions outcomes (results against objectives)</i> |
| Standards relate to service processes | Standards relate to service attributes customers value | Standards relate to provider's objectives |
| Performance monitored by certification of standards and quality assurance | Performance monitored by customers' perceptions of quality and value of services delivered | Performance monitored by value of results to provider |
| Focus on inputs, activities and processes | Focus on outputs (services delivered) and value to customer (outcomes) | Focus on outputs (services delivered) and value to providers (outcomes) |
| <i>Professional Control Standards</i> | <i>Consumer Control Standards</i> | <i>Provider Control Standards</i> |
| <i>Indicators:</i> | <i>Indicators:</i> | <i>Indicators:</i> |
| Reliability of processes | Customers' perceptions of service delivery | Return to provider on quality investment |
| Accreditation | Customer satisfaction | Value of customers to service providers |
| Quality certification | | Customer retention, loyalty & referrals |
| <i>Accountability for activities and processes</i> | <i>Accountability for customer (customer) perceptions of service delivery</i> | <i>Accountability for service delivery outcomes (results)</i> |
| <i>Monitoring processes against professional standards & benchmarks</i> | <i>Monitoring satisfaction, complaints</i> | <i>Monitoring results by comparing outputs & outcomes to objectives and valuing the impact</i> |
| <i>Limitations applied to professional public services</i> | | |
| <i>Links between resources, activities and processes are complex</i> | <i>Customers who pay for services, consumers who use services and citizens with rights and entitlements have different perspectives on quality and value</i> | <i>Separate funders, purchasers and providers have different perspectives on quality, value and performance outcomes</i> |
| <i>Services are delivered in systems and outputs are hard to separate for different services processes and agencies in system</i> | <i>Multiple stakeholders with different expectations & perceptions</i> | <i>Multiple stakeholders have different objectives Public services have social objectives</i> |

Source: This conceptual framework has been developed by the author in current doctoral research to investigate the use of performance monitoring as a strategy to improve service quality and responsiveness.

public policy objectives specified in legislation. Table 3 compares the basis of accountability for these three perspectives.

ACCOUNTABILITY IS COMPLEX FOR PUBLIC SERVICES

Accountability is fundamental to governance in democratic systems. Setting service standards and monitoring performance is part of a wider shift under NPM from political to managerial accountability (Zifcak 1994). However this is a narrowing of the definition of accountability. The limitations of the service quality perspectives derived from the private sector are summarized in Table 3. Service Charters highlight user interests but there is more to public services. Citizens and users (consumers) both have an interest in public services and accountability mechanisms must take into account both perspectives. In the language of business, responsiveness is to stakeholders, not just customers.

The idea that public agencies have customers is a recent one (Osborne and Plastrik 1997: 201), transplanted into the public sector with the quality movement and management consultants armed with their toolkits based on strategies for competitive markets (Micklethwait and Wooldridge 1996). Applying the concept of customers in order to specify standards is difficult for public services (McGuire 1997). Clinton's 1993 Executive Order defines customers as 'an individual or entity who is directly served by a department or agency'.¹² Osborne recognizes that one problem with this definition is confusing 'compliers' with customers and strategies for voluntary compliance with competitive markets. Taxpayers are compliers compelled by legislative authority, not customers with a choice between competing suppliers.

Customers, clients and citizens are different conceptions of stakeholder relationships. Osborne recognized that 'citizens are ultimately more important than customers, and accountability to the elected representatives of those citizens is more important than accountability to customers' (Osborne and Plastrik 1997: 201). These multiple accountabilities to citizens, ministers, customers and clients are a significant limitation of private sector models (McGuire 1990, 1997). Responsiveness to consumers is important, but only one dimension of effectiveness. As Bynoe argues: 'People receiving public services – or their public agents – are more than mere shoppers in some social supermarket' (1996: 25).

A further difficulty for public services is the complexity of the links in accountability chains. Contracting and market testing increase this complexity. Public services, for example health, education and aged care, are delivered in complex systems usually involving multiple agents. This tends to limit and obscure accountability rather than making it more transparent. Public programmes are designed to deal with what are referred to as 'wicked problems'. Governments become involved because markets fail. Competition is for public funds, not customers. Public enterprise satisfies needs. In contrast private enterprise satisfies demand, that is needs backed by purchasing power.

Performance is defined as how well a service meets its objectives. The objectives are usually clear enough – a healthy, literate community able actively to participate in economic and social life – but the links between activities, processes, outputs and outcomes to achieve these objectives are not so clear.

RESPONSIVENESS – DILEMMA OR PARADOX

Customer service language brings with it market logic, to which has to be added democratic logic (Walsh 1994). Market logic is based on the assumption of customer power (consumer sovereignty) achieved through exit and choice mechanisms. Democratic logic is based on the assumption of citizen power (voter sovereignty), achieved through voice mechanisms such as complaints systems and new administrative law. It is not surprising then that attention is turning to these mechanisms.

Service Charters as a strategy for more responsive service delivery is based on the assumption that applying marketing techniques can improve quality and there is some truth in this (Walsh 1994). Effectiveness depends on voice rather than choice mechanisms. However service delivery is not all there is to responsive government. Walsh succinctly encapsulates the problem: 'The danger of defining the public realm as the arena in which services are exchanged for taxes is that politics is reduced to service delivery rather than government, seen as authoritative decision based on collective commitment' (1994: 69).

Citizens are customers *and* owners (Kettl 1994: 28). This is a paradox to be resolved by managing both relationships, not a dilemma to be solved by an either/or choice. Political and managerial dimensions of accountability are not separate as is assumed in NPM. This is a recycling of old attempts to separate policy and administration in earlier reforms. The problems of managing the provision of public services are managerial *and* political. So accountability must have managerial and political dimensions. The difficulty is that responsiveness to citizens as recipients of service conflicts with responsiveness to citizens as taxpayers (Kettl 1994; Walsh 1994). Kettl argues performance management is more useful than customer service as a guide for government action. However, performance management does not resolve the conceptual and technical difficulties of service quality.

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NOTES

- 1 This was the title of a paper on internal marketing by O'Connor and Shewchuck included in the Best Papers Proceedings of the 55th Annual Meeting of the Academy of Management in 1995.
- 2 The idea of service guarantees was prevalent in the services management literature at this time (Hart 1988, 1993), but it is not clear to what extent this influenced the development of the Citizen's Charter.
- 3 The other two are the New Deal and the Hoover Commissions.
- 4 Executive Order 12862: Setting Customer Service standards, 11 September 1993.
- 5 ACSI is based on an index developed by Claus Fornell in 1992 for Sweden that has now been applied to a number of countries including the USA to benchmark customer satisfaction.
- 6 The cumbersome title of this committee is the Steering Committee for the Review of Commonwealth-State Service Provision (SCRCSPP). The first report published in 1995 described the framework for performance monitoring and reported on a substantial range of services and indicators. In annual reports since 1997 the range of services and indicators has steadily increased (SCRCSPP 1997, 1998, 1999, 2000). This appears to be the most extensive performance monitoring developed by any OECD country and enables comparative benchmarking on a broad range of indicators including service quality.
- 7 No minister was specifically designated with responsibility for Consumer Affairs in the second Howard ministry.
- 8 This is reflected in the further reading suggested in the toolkit, see, for example, pp 85–8.
- 9 For a recent review of research knowledge see Zeithaml (2000).
- 10 There is a vast literature of service quality that draws on TQM, management and marketing but there is general agreement that quality is different for services because of the way services are produced, consumed and valued. This is discussed in McGuire (1999: chs 3 and 6).
- 11 This literature is examined in McGuire (1999: ch. 6). Halligan (1995: 93) distinguished three types of quality:
 - Quality as standards (inputs).
 - Quality as service delivery (outputs).
 - Quality as outcomes (results against objectives).

'Customer perceptions of service delivery' does not equate simply with 'outputs'. While the focus is on service delivery, the perspective is that of customer/consumer rather than service provider. Perceived service quality is a measure of the quality of service delivery and customer satisfaction is a measure of the value of service delivery (costs and quality). 'Outcomes' relates to the objective of the service provider, which is assumed to be profitability. In the services marketing and management literature the assumption is that customers and consumers fund or purchase, and providers supply or deliver services.
- 12 Executive Order 12862: Setting Customer Service Standards, 11 September 1993.

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APPENDIX 1: UNITED KINGDOM - CITIZEN'S CHARTER AND SERVICE FIRST

| Year | Reports, recommendations and decisions |
|---|--|
| 1979 Election Margaret Thatcher's Conservative government | Recruited Derek Rayner from the private sector to head the Efficiency Unit in Cabinet Office |
| 1982 | White Paper <i>Efficiency and Effectiveness in the Civil Service</i> (Cm 8616) Financial Management Initiative (FMI) changed focus from process to results with emphasis on efficiency |
| 1987 Re-election Margaret Thatcher's Conservative government | Efficiency Unit Report to Prime Minister <i>Improving Management in Government: The Next Steps</i> recommended split between policy and service delivery functions by creating executive agencies and market testing of services |
| 1988 | Next Steps programme established separate agencies and parent departments Treasury & Civil Service Committee House of Commons inquiry provided bipartisan support for Next Steps |
| 1989 | ANAO review first year of Next Steps |

| Year | Reports, recommendations and decisions |
|--|--|
| 1990 John Major became Prime Minister | |
| 1991 | <p>White Paper <i>Citizen's Charter: Raising The Standard</i> (Cm 1599)</p> <ul style="list-style-type: none"> • Four themes – quality, choice, standards & value for money • Six principles for Charter standards – standards, information and openness, choice and consultation, courtesy and helpfulness, putting things right & value for money • Charter Mark Awards Scheme • Clear and well-publicized complaints procedures • Citizen's Charter Unit established in Cabinet Office to co-ordinate programme <p>White Paper <i>Competing for Quality</i> (Cm 1599)</p> <p>National Consumer Council Report <i>The Citizen's charter: getting it right for consumers</i></p> |
| 1992 Re-election John Major's Conservative government | <p>Next Steps Agencies Review 1992 (Cm 2111) reported on quality, financial, efficiency and throughput targets for 76 Executive Agencies</p> <p>White Paper <i>The Citizen's Charter: First Report 1992</i> (Cm 2101)</p> <p>Audit Commission <i>Charting a Course: Citizen's Charter Indicators</i></p> |
| 1994 | <p>White Paper <i>The Citizen's Charter Second Report 1994</i> (Cm 2540)</p> |
| 1995 | <p>White Paper <i>The Citizen's Charter: The Facts and figures: A report to mark four years of the Citizen's Charter</i> (Cm 2970) reported improvements in delivery times for many services</p> <p>Audit Commission <i>Read All About It</i>, Guidance on the Publication by Local authorities of the Citizen's Charter Indicators (HMSO)</p> <p>National Consumer Council Report <i>Consumer Concerns</i> showed increases in satisfaction with local council services and the NHS since 1991</p> <p>The Citizen's Charter Complaints Task Force Report <i>Putting Things Right</i> recommended a set of principles for effective complaints systems</p> |
| 1997 Election Tony Blair's Labour Government | <p>White Paper <i>Better Government</i> (HMSO)</p> <p>Review Citizen's Charter programme</p> |
| 1998 | <p>Chancellor introduced <i>Service First</i> The New Charter Programme to replace Citizen's Charter and to change emphasis from 'value for money' to 'more effective use of resources', a new audit team to monitor quality and a review of all existing Charters</p> <ul style="list-style-type: none"> • Nine principles of public service delivery: set standards of service, be open and provide full information, consult and involve, encourage access and promotion of choice, treat all fairly, put things right when they go wrong, use resources effectively, innovate and improve, work in partnership with other providers • Six new standards to improve central government • Service First Unit (Cabinet Office) responsible for co-ordination Charter programme |

| Year | Reports, recommendations and decisions |
|------|---|
| 1999 | <p>National Consumer Council Report on Local Charters</p> <p>MORI & Birmingham University School of Public Policy commissioned to establish 'People's Panel' of 5,000 randomly selected representative citizens to be surveyed and consulted about service delivery improvement</p> <p>Chancellor announced FOI legislation to provide legal basis for public services</p> <p>White Paper <i>Modernizing Government</i> (Cm 4310) announced new mechanisms for managing service delivery and changed emphasis to partnerships and consultation:</p> <ul style="list-style-type: none"> • Comprehensive spending review of all central and local government services • Public Service Agreements (PSAs) to set new targets, hold Ministers and departments accountable for priorities and replace annual with three-year spending plans • New Cabinet Committee to monitor performance • New Productivity Panel • Annual report on progress for Parliament • Public sector benchmarking project to spread Business Excellence Model • Best value to replace compulsory competitive tendering in local government <p>Forty national and 10,000 local Charters exist</p> <p>Benchmark is 5 per cent improvement in satisfaction by April 2001</p> |

Sources: Service First Website, <http://www.servicefirst.gov.uk>; OECD PUMA *Public Management Profiles 1992 United Kingdom*, <http://www.oecd.org/puma/country/uk.htm>; Bynoe (1996); Keeble (1996); OECD PUMA *Public Management Information on United Kingdom 1998 Update*, <http://www.oecd.org/puma/country/uk.htm>; Richards (1998).

APPENDIX 2: UNITED STATES – CUSTOMER SERVICE PLANS

| Year | Reports, recommendations and decisions |
|--|--|
| 1992 | |
| Election President Clinton (Democratic White House Administration) | |
| 1993 | <p>Vice President Al Gore's 'Reinventing Government Summit' with corporate executives, government leaders and leading organizational change consultants</p> <p>President Clinton established National Performance Review (NPR) with Vice President Gore as leader</p> <p>NPR Status Report <i>From Red Tape to Results: Creating a Government That Works Better and Costs Less</i> (September) detailed 384 recommendations including strategies to improve customer service</p> |

| Year | Reports, recommendations and decisions |
|---|--|
| 1994 Mid-term congressional elections resulted in Republican Party majority Congress | <p>NPR Report <i>Improving Customer Service</i> (September)</p> <p>President Clinton's Executive Order 12862 (11 September) required all executive agencies providing significant services directly to the public to:</p> <ol style="list-style-type: none"> 1. identify the customers who are, or should be, served by the agency; 2. survey customers to determine the kind and quality of services they want and their level of satisfaction with existing services; 3. post service standards and measure results against them; 4. benchmark customer service performance against the best in business; 5. survey front-line employees on barriers to, and ideas for, matching the best in business; 6. provide customers with choice in both the sources of service and the means of delivery; 7. make information, services, and compliant systems easily accessible; and 8. provide means to address customer complaints <p>Government Performance and Results Act (GPRA) passed by Congress required all federal agencies to develop strategic plans, performance measures by 1997 and report on performance annually (from 2000).</p> |
| 1995 | <p>Brookings Institute external appraisal of NPR (Kettl 1994)</p> <p>NPR Report <i>Putting Customers First: Standards for Serving the American People</i> (September)</p> <p>NPR Report <i>Common Sense Government: Works Better and Costs Less</i> (September) detailed a further 180 recommendations</p> <p>President Clinton's Memorandum <i>Improving Customer Service</i> (23 March) required agencies to:</p> <ul style="list-style-type: none"> • publish customer service standards by 1 September • measure and report results against standards annually • develop customer service tracking measures • survey employees <p>NPR <i>Putting Customers First '95</i> (October) reported on 214 agencies with 3,000 service standards</p> <p>General Accounting Office Report <i>Management Reform: Implementation of the NPR Recommendations</i> (GAO/OGC-95-1)</p> |
| 1996 Re-election President Clinton | <p>NPR Report <i>Reinvention's Next Steps: Governing in a Balanced Budget World</i> (March)</p> <p>General Accounting Office Report <i>Management Reform: Completion Status of Agency Actions Under the NPR</i> (GAO/OGC-96-94)</p> |
| 1997 | <p>President Clinton & Vice President Gore NPR <i>Putting Customers First, 97</i> (October) reported:</p> |

| Year | Reports, recommendations and decisions |
|------|--|
| 1998 | <ul style="list-style-type: none"> • 4,000 standards for 570 federal departments, agencies & programmes (published on Internet) • results identified for 2,800 standards • formal customer surveys by 150 agencies • Roper poll recorded increase in public confidence in government from 17% 1993 to 26% • many case examples of service delivery improvements • Vice President Gore's Hammer awards for reinvention success <p>Federal agencies submitted strategic plans under GPRA Federal agencies submitted first annual performance plans under GPRA</p> <p>New name NPR National Partnership for Reinventing Government New slogan NPR America@ItsBest</p> <p>President Clinton's Memorandum <i>Look Who's talking Now: Conversations with America</i> (3 March) required agencies to</p> <ul style="list-style-type: none"> • report monthly on initiatives • implement customer complaints processes • report annually on customer service results <p>Brookings Institute external review NPR <i>A Fifth-Year Report Card</i> (Kettl 1998):</p> <ul style="list-style-type: none"> • A+ for effort • B+ for customer service <p>Customer satisfaction to be included in a balanced set of measures for assessing agency performance</p> |
| 1999 | <p>US Government Customer Satisfaction Initiative (January) survey of 7,723 citizens covering twenty-nine federal services included in the American Customer Satisfaction Index (ACSI) enabling benchmarking 'high impact' federal agencies against the private sector</p> <p>ACSI results (December 1999):</p> <ul style="list-style-type: none"> • government-wide customer satisfaction index of 68.6 on 100-point scale (6 per cent lower than private sector aggregate score) • individual agencies ratings ranged from 51 to 87 (private sector spread 53 to 86) • including government sector in ACSI increased US score from 72.1 to 73 (US score is used for international comparisons) • percentage of public service customers who complain is lower than the private sector (may reflect difficulty with complaints processes) • 60 per cent of customers reported higher satisfaction with services (Prior to 1999 ACSI included IRS, US Postal Service, local garbage and police agencies) <p>ACSI is to be repeated in 2000</p> |

Sources: ACSI American Customer Satisfaction Index, University of Michigan Business School, <http://www.bus.umich.edu/research/nqprc/asic.html>; NPR National Partnership for Reinventing Government (formerly National Performance Review) website, <http://www.npr.gov/>; OECD PUMA *Public Management Profiles 1992 United States of America*, <http://www.oecd.org/puma/country/us.htm>; OECD PUMA *Public Management Information on the United States 1998 Update*, <http://www.oecd.org/puma/country/us.htm>; Kettl (1994, 1998); Kamensky (1999) *NPR A Brief History*, <http://www.npr.gov/whoarewe/history2.htm>.

APPENDIX 3: AUSTRALIA – GOVERNMENT SERVICE CHARTERS

| Year | Reports, recommendations and decisions |
|-------------------------------------|--|
| 1983 | |
| Election Hawke Labour government | |
| 1984 | Financial Management Improvement Program (FMIP) introduced financial management and budgetary reforms to assist government to manage for results and use resources efficiently. Focus was on corporate management, programme budgeting and evaluation. Performance evaluation frameworks and monitoring by central agencies to reassert strategic control |
| 1992 | <p>Task Force on Management Improvement <i>Australian Public Service Reformed. An evaluation of a decade of Management Reform</i> (December) review of the FMIP included a survey of (2,400) users of programmes and services. Reported users had low expectations of quality but high levels of satisfaction with direct contact with agencies. Reported an improvement in quality and focus on clients but stressed the need to improve client service across public service. Identified the need for better definitions of results, better specification of qualitative and quantitative performance information and greater use of client-oriented performance standards as an area for future reform (MAB 1992)</p> <p>Parliamentary review of the Australian Taxation Office by the Public Accounts Committee recommended the development of a Service Charter</p> |
| 1994 | <p>Australian Public Service Commission Draft Australian Competency in 'Client Service' (Kettl 1994: App. I)</p> <p>Steering Committee for the Review of Commonwealth/State Service Provision (SCRCSSP) established by Council of Australian Governments to develop objective and consistent data to benchmark the performance of Commonwealth and state government services</p> |
| 1995 | <p>Department of Finance Report <i>Quality for Our Clients. Improvement for the Future</i> reported on an increasing number of agencies adopting a client focus, a diverse array of quality initiatives to improve service delivery, and recommended quality standards and targets should be part of performance information, but did not recommend Charters (DoF 1995)</p> <p>TARP Australia Study of Complaints Handling in Australia for American Express & Society of Consumer Affairs Professional in Business. A national survey found that 15 per cent of complaints were directed to government or community organizations. Report considered at a conference in Canberra <i>Quality of Service and Customer Satisfaction</i>, sponsored jointly by the Society of Consumer Affairs Professional in Business (SOCAP), Trade Practices Commission and the Commonwealth Ombudsman</p> <p>Western Australia Government introduced a comprehensive Service Charter Initiative based on Citizen's Charter</p> |

| Year | Reports, recommendations and decisions |
|---|---|
| 1996 Election Howard Conservative coalition government | Senate Finance and Public Administration References Committee Report <i>Service Delivery by the Australian Public Service</i> (December). Recommended departments and agencies focus on service quality improvement, review service standards, report on service quality and client consultation in annual reports and establish internal complaints mechanisms based on recommendations by Ombudsman, Society of Consumer Affairs Professional and Trade Practices Commission (SFPARC 1995) |
| | Government Service Provision, first report of SCRCSSP (1995), developed quality indicators for extensive range community services |
| | Draft Taxpayers Charter released for public comment |
| | Management Advisory Board (MAB) commissioned <i>The Quality in Customer Service Project</i> to identify best practice and disseminate information to agencies |
| | National Commission of Audit <i>Report to the Commonwealth Government</i> (June) reviewed role of government, activities and finances, argues Commonwealth government had fallen behind best practice overseas, in state government and the private sector. Recommended reconsideration of role of government in service provision, separation of policy and service delivery, introduction of contestable markets and contracting for services, user pays, user choice, transfer funds to customers or purchasers (NCA 1996) |
| 1997 | Industry Commission Report <i>Competitive Tendering and Contracting in Public Agencies</i> advocated competitive tendering and contracting focused on service outcomes to improve accountability, quality and cost-effectiveness of public services by defining services and opening delivery to competition from external suppliers (IC 1996) |
| | Child Support Agency published service charter (July) |
| | Minister Assisting the Prime Minister for Public Service released discussion paper <i>Towards a Best Practice Public Service</i> (November) which outlines the Government's strategy for reforming the public service. Government Service Charters were identified as a mechanism for improving accessibility, transparency and responsiveness of the public service (Reith 1996) |
| | Prime Minister's <i>More Time for Business</i> statement announced introduction of Service Charters for all federal agencies (24 March) Responsibility for implementation was given to Minister for Customers and Consumer Affairs Service Charters Implementation Unit established in the Department of Industry Science & Tourism (DIST) |
| | <i>Putting Service First - Principles for Developing a Service Charter</i> (March) identified nine principles for developing, monitoring and reviewing service charters (DIST 1997c): 1. clear identification of the agency, its purpose, customers and services 2. facilitate communication between the agency and its customers |

| Year | Reports, recommendations and decisions |
|--|--|
| | <ol style="list-style-type: none"> 3. set out customer service standards and customer rights and responsibilities 4. articulate agency policy on obtaining customer feedback and handling enquires and complaints 5. to be developed in consultation with customers, staff and key stakeholders 6. designed and promoted in a format and style that meets the needs and expectations of customers 7. supported by effective, timely, low-cost and accessible mechanisms for resolving customer complaints 8. commits the agency to monitoring Charter compliance and review of Charter effectiveness 9. public accountability by annually publishing the Charter and information on compliance and performance <p>Agencies are required to monitor and review progress internally and externally every three years and include performance information in Annual Reports</p> <p>Commonwealth Ombudsman <i>A Good Practice Guide for Effective Complaint Handling</i> (June)</p> <p>Tax Payers Charter published (July)</p> <p>Minister for Consumer Affairs released Service Charters Implementation Timetable (August) requiring 115 agencies to complete Charters within two years (DIST1997a)</p> <p><i>Developing Service Charters: A Guide for Commonwealth Agencies and Enterprises</i>, November (DIST 1997b)</p> <p><i>The Quality in Customer Service Package</i> (November), a framework based on five best practice principles for agencies to develop charters (MAB/DIST 1997):</p> <ul style="list-style-type: none"> • <i>Report: Quality in Customer Service in the Australian Public Service</i> (MAB) • <i>The Better Practice Guide to Quality in Customer Service</i> (joint publication MAB and ANAO) • <i>Toolkit: Quality in Customer Service</i> (MAB & DIST) |
| 1998 Re-election Howard Conservative coalition Government | <p>Restructure Portfolios (October). Responsibility for Service Charters moved to Competitive Tendering & Contracting Branch of the Department of Finance and Administration</p> <p><i>State of the Service Report 1997-8</i>, Public Service Commissioner reported significant progress in developing charters (PSMPC 1998):</p> <ul style="list-style-type: none"> • 87 per cent (90) of Charters listed in the implementation timetable completed by June 1998 • some Charters were delayed by reviews and administrative changes following the 1998 election • 112 Charters completed as at 25 November 1998 • agencies not required to develop Charters are developing or planning Charters |

| Year | Reports, recommendations and decisions |
|------|---|
| 1999 | <p>Two-year (July 1997–June 1999) whole-of-government report <i>Service Charters in the Australian Public Service</i> (25 pages) by Special Minister of State (Ellison 1999):</p> <ul style="list-style-type: none"> • 88 per cent (125) of 148 Charters listed for completion by June 1999 published • 98 per cent of Charters included standards for service delivery and relationships with customers • 82 per cent of Charter agencies have systems to record customer feedback • 89 per cent of Charter agencies have customer complaints systems operating • 77 per cent of Charter agencies report complaints data • 82 per cent of Charters developed in consultation with staff and customers, 66 per cent developed in consultation with staff, customers and stakeholders • 69 per cent of agencies have systems to measure performance against Charter standards • 80 per cent of Charter agencies reported on compliance with Charter in Annual Report; 77 per cent reported complaints statistics; 40 per cent reported performance data for full year <p>Announced a review of the nine Service Charter principles and foreshadowed a change in emphasis to outcomes</p> <p>Foreshadowed establishment of a high-profile awards scheme <i>Excellence in Customer Service</i></p> |

Sources: Department of Finance and Administration website [http://www.ctc.gov.au/publications/index.htm#Service Charters](http://www.ctc.gov.au/publications/index.htm#Service%20Charters); MAB-MIAC (1992); OECD PUMA *Public Management Profiles 1992 Australia*, <http://www.oecd.org/puma/country/uk.htm>; OECD PUMA *Public Management Information on Australia 1998 Update*, <http://www.oecd.org/puma/country/uk.htm>; Ellison, C. (1999).

Transferring Marketing to Professional Public Services - An Australasian Perspective

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"If apples were oranges, Phillip Kotler's generic concept of marketing would apply as well to government as it does to business. But apples are not oranges and government is not business."

(Adapted from Guy & Hitchcock's (2000) observation about Peter F. Drucker's ideas on management.)

Health, education and community services are complex human welfare services classified as 'professional' in marketing. Market type mechanism introduced under the rubric of NPM has blurred the distinction between public and private realms, as increasingly these public services are delivered by non-profit and private agencies. One consequence is a more overt marketing stance by service providers. Ambiguity in the language of marketing leads to confusion between market mechanisms and marketing for public services. There are two issues for professional public services. The first is the application of market type mechanisms. The second is the transfer of marketing strategy and techniques.

Products, value and exchange relationships, the core concepts of marketing, are deeply ambiguous for professional public services. This paper examines the managerial implications of the conceptual ambiguity in the language and concepts of marketing for professional public services. Marketing techniques have much to offer public service providers seeking to improve service delivery, client relationships and consultation. Market research techniques have much to contribute to policy analysis and evaluation. However the core concepts of marketing are deeply ambiguous for professional public services with multiple 'customers' and contested 'values'. There is more to social policy than strategic marketing and there is more to service delivery than customer service.

Introduction

Professional public services such as health, education and community services are the interface between public, non-profit and private sectors. These services are primarily funded by government, but increasingly delivered by complex networks of public, private and non-profit agencies. Public expenditure on these services is a significant proportion of government budget outlays and national output in OECD countries (Keating 1999). These services are also the interface between government facing resource constraints arising from pressure to achieve budget surpluses, and the community demanding better quality services. Growth in public expenditure has been accompanied by restructuring of service delivery networks (Keating 1999). Governments have responded to these pressures with reforms to increase the efficiency, effectiveness and responsiveness to users of public services. Responsiveness has been pursued by changing the focus of service delivery to 'clients' and 'customers' (PUMA 1995; 1996a; 1996b; 1999).

A philosophy of managerialism and consumerism has driven these reforms in the NPM heartland of the UK, USA and Australia (Pollitt 1998; Kettl 1994; Walsh 1995; Schick 1999). Change has been accompanied by a more overt marketing stance by professional providers, leading to debates about 'customer orientation' and the appropriateness of marketing techniques for public services (McGuire 1997 & 1998). However NPM is a contradictory set of propositions (Hood 1991 & 1995) and confusion between 'market type mechanisms' and 'marketing' complicates these debates. Client consultation and customer choice are different strategies for 'customer-oriented' service delivery.

Reform has focused on three strategies to make service providers more responsive to consumers (PUMA 1995; 1996a; 1996b; 1999). The first is contestable service delivery and competition between service providers to give consumers greater choice. Purchaser-provider arrangements and contracting that separates funding and service delivery are examples. A second strategy is to give consumers a stronger voice through consultation, formal satisfaction surveys, complaints and redress mechanisms. A third strategy is including consumers in formal accountability mechanisms such as mandated service standards and external performance measurement and reporting. Consultation and direct accountability to clients are a substitute for competition and choice to make providers more responsive to users.

Ambiguity in the language of marketing leads to confusion between 'market mechanisms' and 'marketing' for public services. This confusion complicates debates about the possibilities and limitations of marketing theory for public services. There are two issues. The first is the application of market type mechanisms. The second is the transfer of marketing strategy and techniques to professional public services. This paper is primarily concerned with the second issue. The generic concept of marketing advocates the universal application of marketing theory and techniques (Kotler & Levy 1969). Goods, services, people, places, events and ideas are all products that can be packaged and exchanged. Marketing applies to every exchange and all stakeholders (Kotler 1972). Public services are products to be packaged for delivery by autonomous providers, including non-profit agencies, under service agreements and contracts that specify service standards.

This paper considers the relationship between market type mechanisms and marketing. The language and logic of contractualism underpins market type mechanisms. The language and logic of marketing underpins 'responsive government' and 'customer focused public services'. The second section examines different meanings of marketing. Customer Relationship Management (CRM) is the latest prescription for better public services. Marketing strategy is concerned with where and how an organisation competes to attract and retain valuable customers. The third section considers the nature of professional public services acknowledged as a difficult case. Health, education and community services are complex human services classified as 'professional' in marketing and management. Information asymmetry between providers and clients creates marketing problems for professional services. Customer orientation in a strategic marketing model is ambiguous when applied to public services. The issue for public services is whether marketing strategy and techniques will change the inward focus of service providers to an outward client-orientation.

Responsive public services

Two main strands in NPM have been the introduction of business techniques, including marketing from the private sector, and the development of market mechanisms. International convergence in the talk about NPM disguises considerable diversity in decisions and actions (Pollitt 2001). Implementation failure is one explanation of gaps between intentions and results, confusion in the talk is another. Marketing language and techniques increasingly shape policy debates and service delivery. Customer relationship management is the latest prescription for improving public services. Two recent reports by Accenture and PricewaterhouseCoopers (PwC) advocating CRM are indicative of this influence (Accenture 2001; Baker 2001). These reports are simply the latest example of prescriptions based on the belief in the universal application of marketing theory and techniques. Goods, services, people, places, events and ideas are all products that can be packaged and exchanged. Public enterprises are businesses whose purpose is to satisfy customers. Marketing applies to every exchange and all stakeholders.

The ascendancy of marketing in public management has been evident for more than a decade. A landmark OECD report *Administration as Service, Public as Client* in 1987 set out the agenda for more responsive service delivery to clients as consumers of public services. A fundamental argument was that a more managerial and marketing mentality would increase productivity and responsiveness (OECD 1987, 125). The report argued that client responsiveness is achieved by increasing "accountability to and control by clients" and challenged "administrative and political cultures" (1987, 32). Four dimensions of client responsiveness were identified: clear and open lines of accountability and control; meeting clients' needs within the framework of policy; ensuring convenient access to services and encouraging active participation in service delivery.

Academics as well as practitioners have been instrumental in developing new models for responsive public services. Hadley & Young provided an early framework based on ten key elements for an "enabling, user-centred approach, open to the participation and influence of

those they (public services) serve" (1990, 61). Shand & Amberg (1995) devised a continuum of client focus with five identifiable points from information to control' based on the degree of involvement. With the growth of contractualism the language has changed from 'clients' to 'customers' (PUMA 1995 & 1996a; 1996b).

Osborne & Gaebler's (1993) best seller *Reinventing Government* set down ten principles for 'customer-driven government' and was instrumental in the diffusion of two powerful metaphors, 'customers' and 'steering and rowing'. However these metaphors are deeply ambiguous for professional public services. Strategic marketing underpins the customer metaphor (Walsh 1995, xvii; Patterson 1998). Contracting and principal agent relationships underpin the steering and rowing metaphor (Davis & Wood 1999).

Market mechanisms – one size does not fit all

The extension of purchaser-provider separation, competitive tendering and contracting (CTC) and internal markets to professional services such as health, education, police, prisons and community services reveals the ambiguity in the concept of markets for public services. Providers of these services usually compete for budget funds rather than paying consumers. The strategic issue is excess demand and budget constraints. These internal 'markets' are administered (Glynn & Murphy 1996) or quasi (Walsh 1995) structures.

Markets are a system for organising production and consumption of goods and services, based on voluntary exchange where customers can exercise choice and market power by switching to an alternative service provider if dissatisfied. Market ideology dictates this is a more efficient and effective system for providing public services (Kotler 1994). Market type mechanisms listed in Table 1 separate the funding and providing responsibilities, shifting the role of government from direct provider to enabler (Walsh 1995). Policy is separated from service delivery. Agencies responsible for delivering services are autonomous to some degree. Common, Flynn and Mellon (1992) identify four points on a continuum of market type relationships with different competitive conditions.

Purchaser-provider arrangements that separate policy and service delivery, competitive tendering and contracting CTC, and internal markets change the structure and focus of public service delivery. Contract is a metaphor for institutional change that introduces markets and competition (Davis & Rhodes 2000). Purchaser-provider arrangements are a variant of the principal-agent model of rational choice that separates policy agencies from service delivery contractors (Walsh 1995). The principal-agent model of public choice underpins Osborne & Gaebler's powerful slogan that 'governments should steer and not row' (Davis & Wood 1999). The argument is that separating policy and service delivery will improve the efficiency and effectiveness of public services. Political and market logic are conflicting perspectives on responsive public services (Self 1993 & 2000). Market logic is based the assumption of customer power or sovereignty, achieved through exit and choice mechanisms. Democratic logic is based on the assumption of citizen power or sovereignty, achieved through voice mechanisms such as complaints systems and new administrative law.

Customer is a second metaphor for change that introduces choice and responsiveness (Pollitt 1998). 'Customers' of public services wear many hats (Mintzberg 1996). Customers as clients or recipients of services is one responsiveness hat. Responsiveness to customers as citizens with rights and responsibilities is another (Walsh 1991b; Kettl 1996). The language and logic of marketing underpins slogans such as 'responsive government' and 'customer focused public services'.

Marketing – products, customers and exchange relationships

Marketing theory is concerned with how exchanges are created, stimulated and facilitated. The practical application is developing and implementing strategies for exchanges between enterprises and stakeholders. Wherever exchange occurs there is a need for marketing (Kotler & Levy 1969). Marketing practice deals with the whole process of entering markets, establishing profitable positions and building loyal customer relationships (Kotler et al. 2001). A fundamental proposition of marketing theory is that customers are a key stakeholder and marketing strategy can increase the value for the firm by delivering value to customers. Marketing has a diversity of meanings that leads to ambiguity and confusion about marketing theory and practice. Webster (1992) identifies three different meanings of marketing - culture, strategy and tactics – that are useful in understanding this confusion (Table 2).

Marketing culture

Since the 1950s the marketing concept has been the philosophical foundation of a market orientation. According to Deshpande & Webster (1989, 3) marketing is a "shared set of beliefs and values that puts the customer at the centre of a firm's thinking about strategy and operations". The imperative for customer orientation or responsiveness is sovereignty in competitive markets. Marketing from this perspective is a company-wide philosophy that drives strategic planning. Understanding what motivates customers and the way they behave is fundamental to a 'marketing' as distinct from a 'production' or 'selling' orientation.

The marketing concept defined as customer orientation is an old idea (Drucker 1954; Levitt 1960). Marketing as distinct from production or selling orientation recognises the central role of customers and consumers. Core marketing concepts are products, markets and exchange. Kotler's (1972) generic concept contends that marketing applies broadly to all 'transactions' between an organisation and all of its 'publics'. The generic concept of marketing is the universal application of marketing principles. Products, markets and exchange are defined in the broadest terms. Health, education and community services are products. Patients, students, children in need of protection from abuse and homelessness people are all 'customers'. Marketing strategy and techniques can be applied to manage 'exchange' relationships between providers and customers. Politics is just another 'P' in the extended marketing mix of controllable variables (Kotler 1994, 355).

Marketing elevates market exchange as the preferred system for satisfying consumer wants and needs. Kotler (1994, 354) argues "exchange is the most democratic way to acquire

goods". The generic concept of marketing broadens the concept of exchange to 'any voluntary transfer of value', including the activities of non-profit agencies such as volunteering and donations. However the key variable in the marketing process is demand, that is wants and needs backed by the ability to pay. Consumer preferences that matter are those backed directly or indirectly by the power of the purse. Marketing is directed at providing products to satisfy customer demand. Markets are defined by marketing as 'all actual and potential buyers', that is the demand side of the neoclassical model of markets. So marketing is directed and managing market exchanges to achieve organisational goals.

Webster argued a decline in support for the marketing concept in the 1980s reflected the lack of empirical support for the idea that "profit is a reward for creating a satisfied customer" (1994, vii). Empirical research that quantified the profitability of retaining customers has filled this gap (Reichheld 1996). This research established a link between customer satisfaction, loyalty, retention and profitability. Webster's (1992) new marketing concept added 'market-driven' to customer orientation reflecting the focus on 'customer value' and a 'value-delivery concept of strategy'. Satisfying customer needs as the defining purpose of business (old marketing concept), becomes 'satisfaction of the needs of valuable customers'. Value is created by market exchanges and measured in economic terms. The marketing concept is implemented through strategic marketing and managing the extended marketing mix. Value for profitable customers becomes the focus of marketing strategy.

Marketing strategy

Strategy links activities to purpose and strategic marketing links activities to business and corporate strategy (McGuire 1999). Business strategy is concerned with where the firm competes, the choice of products and target markets (Day 1994 & 2000). Competitive advantage is the focus. Marketing strategy is concerned with product positioning. Attracting and retaining valuable customers is the focus of strategic marketing. Market competition is the essential driver of customer-orientation. The commonly used abbreviation 'STP' reflects the three elements of marketing strategy: segmentation, target marketing and product positioning. Market segmentation and product differentiation are the analytical foundations of STP. The central tenet is positioning products on customer benefits or value in selected target markets. Customer selection is the basic principle. Target markets are groups of customers with similar demands, and market strategy succeeds by providing better value to selected customers than competitors. Not all customers are equally valuable and STP provides a heuristic for selection. Marketing planning based on analysis of 'marketing opportunities' to identify strategies is the foundation of strategic marketing.

In the 1990s the marketing concept was broadened further still by relationship marketing (Christopher, Payne & Ballantyne 1991). Webster (1992) identified a continuum of exchange relationships from transactions to strategic alliances, to which marketing is applied. The new logic of marketing strategy is customer relationship management. In the 1990s the focus has shifted to performance and 'value' is the new language of strategy. The focus of corporate

strategy is shareholder value (Kotler et. al. 2001). Shareholder value is defined in economic terms and measured by financial indicators such as revenue and profit. Revenue is an economic measure of customer value. Economists use simultaneous demand and supply equations to depict two perspectives on exchange value. The supply function is the service provider's perspective and the demand function is the customer's perspective. Strategy depends on the service provider's objectives. The objective of strategy in competitive markets is to exercise market power by attracting and retaining valuable customers.

Marketing strategy is changing from a behavioural approach, concerned primarily with customers' responses, to an economic approach concerned with the long-term profitability of customers. Customer retention economics combines demand side (customers' perspectives on value) and supply side (firm's perspective on value) in calculating the value of loyal customers and the costs of customer defections to a firm. Research quantifying the relationship between customer retention and profitability has changed the focus of marketing strategy from transactions to relationships (Reichheld & Sasser 1990; Reichheld 1993 & 1996).

Customer retention economics adds an important new dimension to market segmentation strategy. Segmentation based on customer profitability is a prerequisite for customer retention and relationship marketing strategies. CRM extends the concept of segmentation to 'customer value'. Value is defined from the service provider's perspective, that is the value of customers to the provider. The resource-based view of strategy (Day 1995 & 2000) adds organisational capabilities to satisfying customer needs as the basis for selecting target markets. Customer satisfaction, defined as "the extent to which a product's perceived performance matches a buyer's expectations" (Kotler et. al. 2001 Glossary), is a key variable or driver of performance in competitive markets. The link between customer satisfaction and profitability provides the imperative for 'customer-orientated' marketing strategy and relationship marketing.

Marketing tactics or techniques

Marketing management is defined as "analysis, planning, implementation and control of programs to create, build and maintain beneficial exchanges with target buyers for the purpose of achieving organisational objectives" (Kotler et. al. 2001, Glossary). Planning links marketing activities to strategic objectives. Defined as the 'marketing mix' of controllable variables that have to be managed to implement marketing strategy, the ubiquitous '4Ps' of product, place, promotion and price, developed by McCarthy in the 1960s, are still the dominant heuristic for marketing management decisions. The 'extended marketing mix' adds people, processes and physical evidence to the decision framework (Kotler et. al. 2001, 70). Debate about the number and labels of the 'Ps' reflects the limits of this functional approach.

More recently a change from a functional to a process approach has been advocated for strategic marketing (Day 1994 & 2000). Value adding processes link marketing activities to outputs and results for customers. Marketing becomes an integrative organisational activity or a set of interconnected processes. Kotler (1994, 358), the most prolific marketing academic, argued marketing is responsible for six core processes: analysing the market, designing

marketing strategies, developing new products, developing and managing brand equity, securing sales and retaining customers. In theory the emphasis in strategic marketing has changed from product portfolios to customer portfolios. In practice, products are still the focus of marketing planning.

Marketing is universal, according to Kotler's generic concept of marketing. The 'extended marketing mix' applies to not only tangible goods and intangible services, but also to 'events marketing', 'person marketing', political marketing', cause marketing, non-profit marketing and experiences marketing (Kotler et. al. 2001). McKenna (1996) in the title of a Harvard Business Review article provided a new slogan, "everything is marketing and marketing is everything".

Phillip Kotler is the strongest brand name in marketing and a prolific author. A 10th 'millennium edition' of *Marketing Management*, first published in 1967, was released in 2000. *Principles of Marketing*, co-authored with Gary Armstrong, is now in its 5th edition. There are many regional adaptations of both texts and the strategic marketing framework has been adapted to develop texts in specialist areas. For example, professional services (Kotler & Bloom 1984), non-profit organizations (Kotler & Andreasen 1975), health care organizations (Kotler & Clarke 1987), educational institutions (Kotler & Fox 1995) extend Kotler's generic concept of marketing to professional services marketing by public and non-profit organisations. Whilst Kotler's generic marketing concept is widely accepted in services marketing, there are different perspectives on the nature of strategy and the role of marketing in service organisations (McGuire 1999 Chapter 2).

Marketing services

Services developed as a distinct perspective within marketing in the 1970s from marketing strategy and techniques for industrial marketing (Brown et. al. 1994). In management, services developed as a distinct perspective from manufacturing (Grönroos 1994a). Production, consumption and products are manufacturing concepts (Grönroos 1998). Services management starts from a fundamentally different perspective on process and its relationship to performance (Johns 1999). Productivity and service quality are key drivers of performance in both paradigms. However quality and productivity are different for services, and, the relationship to customer satisfaction and profitability is more complex because of provider-consumer interactions in service delivery. Quality is a key driver of customer satisfaction, retention and profitability, but the precise nature of the relationship is not understood (Zeithaml 2000).

Services are the interface between marketing and management, and there is considerable diversity in what is now a vast literature on the subject. Services is not a well-defined area, reflecting a range of approaches with different emphases on economics, marketing and management (see McGuire 1999 Chapter 2). The field divides into services marketing and services management, with the Nordic school combining the two approaches (Brown et. al. 1994; Grönroos 1994a). This diversity of approaches creates a selection problem for public service providers looking for strategies and techniques to improve service delivery.

Service has a diversity of meanings that leads to confusion between 'customer service strategy' and 'service products' (McGuire 1999 Chapter 1; Johns 1999). Customer service is a product differentiation strategy. Services as a class of products have distinctive characteristics that require a different approach to strategy, marketing and management. Intangibility, coproduction and direct provider-client encounters are three characteristics of services that have implications for marketing (McGuire 1999 Chapter 3).

Intangibles

A service is a delivery system and the outcome is a process. The significance of intangibility for marketing relates to quality. Service quality has technical and process dimensions (Gronroos 1990 & 2000). Technical quality or 'reliability' is defined as the outcome or 'what' is delivered to customers. Technical quality is usually measured by conformance to standards. Process quality is defined as 'how' the service is delivered. Process quality is usually measured by clients' subjective evaluation of their encounters with providers. The intangible nature of services makes quality assurance and the signalling of quality to customers more difficult. Services cannot be inspected before delivery. Services that fail during delivery cannot be returned. Quality assurance is an issue.

Coproduction

Production and consumption are not entirely separate in time for services, and consumers participate to some extent as producers in delivery. Coproduction is what distinguishes service supply chains from manufactured goods. Coproduction increases the complexity and variability of service delivery. Understanding the interactive nature of service delivery and the consumer's role in delivery is fundamental to services marketing and management. Customers as coproducers are a resource, not just a source of revenue to service organisations. Customer involvement in delivery influences service productivity and quality. Managing consumers' participation in delivery and managing supply and demand imbalances are issues.

Direct provider-consumer encounters

Services cannot be separated from providers and consumers. Direct provider-consumer encounters increase the variability of service outcomes. Encounters and the service environment are variables that influence customer's evaluations of quality and value. These are significant for high contact services such as health and education. Encounters during service delivery also mean that marketing communications have interactive components. Accessibility and encounters with service providers influence consumer's evaluations of service quality. Managing encounters and recovery from service failures are issues.

Services marketing and management starts from a customer orientation and strategy is based on STP and CRM. The service profit chain applies market economics to services (Heskett et. al. 1994). However, intangible outcomes, coproduction and direct provider-client encounters change the focus of strategy to service competition and the focus of marketing

management to service processes (Grönroos 1990 & 2000). Grönroos argues that the firm has to view its business and customer relationships from a service perspective. There is less agreement about the extended marketing management for services. Many frameworks and a vast array of techniques are offered. There is general agreement that marketing management is different because services are interactive. The Nordic school has been the strongest critic of the functional approach of the extended marketing mix. Grönroos (1994b) contends the '7Ps tool box' is a straight jacket that is too restrictive for services that require a systems approach to marketing management.

There is considerable variability between services on the dimensions of intangibility, coproduction and customer-consumer encounters. Different types of service processes require different delivery systems (Silvestro et. al. 1992). Rail and postal services, for example, are classified as mass services. Outcomes are more tangible, consumers have a passive role in coproduction and encounters are limited enabling services to be standardised. In contrast education, health and community services are classified as professional services. Outcomes are more intangible, consumers have an active role in coproduction and provider-client encounters in delivery are high requiring services to be customised (Silvestro et. al. 1992). The next section examines the nature of professional public services and the implications for marketing.

Professional public services – a duty of care

All services are not the same and professional services pose particular challenges for marketing. Professional services offer care and advice and are delivered by people with specialist knowledge and technical qualifications (Harvey 1996). Locating professional services on intangibility, coproduction and client-provider encounters continua identifies marketing issues. Intangibility of service outcomes leads to asymmetry or divergence between providers and consumers on quality (Walsh 1991a). Professional services are high on 'credence attributes', which means providers have information about technical quality that clients cannot evaluate. Clients have more information about process quality or 'customer service' aspects of delivery. The power of professional service providers derives from their specialist knowledge and control of technical quality standards, which critics argue has little regard for client perceptions (Pollitt 1988; Harvey 1996).

Customers as coproducers have an active role in service delivery and are usually present for much of the duration. People are processed in human services such as education, health and community services. The motivations and willingness of customers to participate in service delivery affect the quality and productivity of outcomes. Professional services are generally high contact and provider-client encounters are between people. There is a high degree of customisation and judgement on the part of providers (Silvestro et. al. 1992). Professional service providers usually describe their customers as clients, signalling a duty of care.

The imperative for customer-orientation is the same for professional services, and client relationships are a key driver of performance. Marketing strategy is based on STP and CRM.

Indeed much of the early development of relationship marketing was for services (Christopher et. al. 1994). The service profit chain applies to professional services (Heskett et. al. 1994). The focus of marketing management is service delivery processes rather than functions (Grönroos 1990 & McGuire 1999). However client-provider relationships are characterised by information asymmetry and uncertainty. Marketing management issues centre on the divergence between provider and client views on service delivery, quality and value.

Public services pose the greatest challenge for marketing. Existing service classifications do not isolate the characteristics of 'public' services and public management classifications focus on tasks and agencies rather than service characteristics.

From private to public services

The 'public-private realms are different/similar' debate is usually framed in terms of sectors or organisations. This leads to contrasts such as Stewart & Ranson's public and private *sector* models (Stewart & Walsh 1992). However contractualism shifts the focus from organisations to *services*. Professional public services are provided by public, non-profit and private agencies. So, an organisational focus is confusing. The issue is the transfer of marketing strategy and techniques to *professional* services and on to *public* services. 'Marketing is similar/different for *services*' is one part of the debate. 'Marketing is similar/different for *public services*' is another. Professional *public* services can be located on public-private continua. Funding, purpose and exchange relationships are the variables most frequently used to identify similarities and differences. Three 'public' characteristics of services create profound ambiguity in the marketing concept and strategy for public services (McGuire 1997).

Social values

Public services have social not just economic, value reflecting welfare or social policy objectives. Social policy is concerned with income inequality and distributional equity. Sales revenue and profitability are 'bottom line' measures of economic value for private services. Social impact and equity are 'bottom line' indicators of social value for public services (Carter, Klein & Day 1992). Demand for public services is derived from public policy processes based on collective political choices (Stretton & Orchard 1994). There is currently no place for equity in the service profit chain.

Collective consumption

Public services provide collective as well as individual benefits (Walsh 1991b; Orchard & Stretton 1994). Services are provided to people described variously as 'customers', 'clients' or 'consumers'. The benefits of public services are consumed collectively by the community as well as privately by users. This means 'provider-customers' relationships are complex for public services. Indeed 'customer' is a slippery concept applied to public services. Public services have a complex set of stakeholders with different interests to be 'satisfied'. The link between revenue and client users is fundamentally different for many public services. The primary source of revenue for service providers is not customers who pay, but budget-funded agencies or 'purchasers'.

Public accountability

Accountability is a fundamental dimension of 'publicness' in representative democracies and consequently a key distinction between public and private services. Rights are central to public accountability. Clients are citizens with rights, rather than customers with wallets, and political processes decide access to services. Public accountability relates to the transparency of decisions and public reporting. Client accountability for social welfare services is a voice rather than choice option, based on public administrative rather than private contract law (Walsh 1995). Complaints and redress are accountability mechanisms that increase client responsiveness (Pollitt 1988; Walsh 1991b). Responsiveness to clients as direct consumers is one dimension of accountability for public services. Political responsiveness to ministers, cabinet and parliament is another. Purchaser-provider relationships are more complex for public services than a simple principle-agent model suggests (Davis 1997). Contractualism increases the complexity of accountability relationships.

Voluntary exchange of value is central to marketing. However, value is deeply contested for public services. Purchaser-provider and provider-client relationships are complex for professional public services. Providers are caught between the conflicting priorities of elected policy makers and clients (OECD 1987). Labels such as customers, consumers, clients and citizens create confusion about the nature of exchange relationships, which are in essence public. 'Public' refers to the use of public funds, for which government is publicly accountable, to provide services in pursuit of social policy objectives. Clients have private interests as consumers and public interests as citizens.

Implications -- 'apples and oranges' - market and political logic

The marketing concept and strategic marketing are deeply ambiguous for professional public services, which are inherently paradoxical. Dichotomies such as goods/services and public/private suggest either/or choices. Paradoxical tensions are two sides of the same coin used to reveal complex interrelationships that have to be balanced (Lewis 2000). The tensions that explain the paradoxes of professional public services are at the very heart of NPM debates. The debates are about the universality of business (marketing) principles and the nature of the public/private differences. Kotler's (1972) generic concept broadened the definition of products and consumers so that marketing applies to all transactions between an organisation and all of its publics. Relationship marketing extends exchanges from 'transactions' to 'relationships'. Wildavsky's (1973) warning against the universality of planning, "if everything is planning then maybe its nothing", resonates in the debate about marketing. Tension is apparent in each of Webster's three perspectives on marketing.

Culture - customer responsiveness or citizen accountability

The idea that public agencies have clients is an old one. The idea that public agencies have customers is a more recent (McGuire 1998). Critics argue customer is limited metaphor for public services (Walsh 1994, Patterson 1998). Clients as customers and citizens are different

stakeholder relationships (McGuire 1997 & 1998). As Pollitt (1994, 171) argues:

To be a consumer is to hold a particular position in a network of market relations. To be a citizen is to be a member of a political community, a much richer concept embracing a much wider range of potential relationships.

Service delivery connecting government to clients as consumers is a managerial perspective on accountability. Policy and governance connecting government to clients as citizens is a political perspective on accountability. Direct accountability to clients adds a third outward dimension to political and managerial accountability. As Mintzberg (1996) observes clients of public services wear many hats. Customer-orientation is at best ambiguous and at worst misleading given these multiple accountabilities. Stakeholder models are pluralist, and people receiving public services "are more than mere shoppers in some social supermarket" (Bynoe 1996, 25).

Strategy – strategic marketing or public policy processes

Changing from provider to client control is problematic for professional services. Professional public services are provided on the basis of need. Exchange between client and providers, whether public, private or non-profit, is based on redistribution rather than market demand. Social values, multiple stakeholders and public accountability do not slot easily into the rational planning framework of strategic marketing. Neither does social value into the service profit chain. The strategic imperative for providers is revenue from 'purchasers', not users. Competition is for budget funding rather than paying customers. Policy processes rather than markets decide budget allocations. Calling clients customers does not change this. The link between budget funding and client satisfaction is through public policy processes, not market exchanges. In the absence of choice, client responsiveness depends on the ability of consumers to voice dissatisfaction through complaints and seek redress. Customer service is a limited basis for client responsiveness for public services.

Customer service language brings with it market logic that displaces democratic logic (Walsh 1994). Market logic is based on the assumption of customer power or sovereignty, achieved through exit and choice mechanisms. Democratic logic is based on the assumption of citizen power or sovereignty, achieved through voice mechanisms such as complaints and redress under administrative law. Direct consultation is an alternative to market choice. Between Adam Smith's invisible hand of the market and Chandler's visible hand of management are the collective hands of deliberative public policy. However indeterminate pluralist stakeholder models are less attractive to practitioners looking for frameworks for decisions and action than the rationality of strategic marketing.

Products, values and exchange relationships, the core concepts of marketing are in fact complex concepts and deeply ambiguous for professional public services. Public policy processes are more than just another 'market'. Market and policy processes are different

mechanisms for allocating and distributing publicly funded services. As Walsh (1994, 69) argues, "the danger of defining the public realm as the arena in which services are exchanged for taxes is that politics is reduced to service delivery".

Tactics – extended marketing mix or service delivery processes

Rather than a paradox, there is a confusing array of marketing and management techniques on offer to improve the productivity and quality of service delivery. If performance problems are managerial, transferring service marketing techniques to improve delivery has much to offer professional public services. However, if problems are political – budget contests for scarce resources – services marketing techniques have less to offer. Marketing techniques will not resolve tensions between efficiency in using scarce budget resources and effectiveness in responding to client needs. Productivity and service quality pull in different directions for public services. Complaint and redress give clients more control than customer satisfaction surveys.

Many different ideas have driven public management reform, and reformers have indiscriminately mixed and matched ideas with little regard for the contradictions (Kettl 1996, 260). According to Kettl (1996, 261) "the problem is far more with theory than with the practice" and the "bottom line for managing public services is reconciling the contradictions between political and managerial realities". Mintzberg (1996) argues that the malaise about government stems from its being too much like business, rather than not enough.

Conclusion – customer orientation is deeply ambiguous for public services

Government is the largest provider of services in the world and therefore fertile prospecting ground for consultants. In a recent report for the Blair Government, consultants from Accenture argued CRM has "great potential" to help government become more "citizen-centric and more efficient" (Accenture 2001). *Customer Relationship Management: A Blueprint for Government* contends CRM principles are "generally found to be quite relevant once agencies overcome the barriers of terminology". However the barriers are more than semantics. The issue is the consequences of marketing strategy and techniques for social policy.

Similarities and differences between public and private services is an old debate (Allison 1979). Critiques of managerialism in public and strategic management continue to argue that there are limits in applying business principles to the public services (Walsh 1994; Mintzberg 1996). Purchaser-provider arrangements and contracts for service delivery with private agencies blur the public/private distinction based on ownership, but not the distinctions based on purpose and accountability. The real impact of reform in NPM heartland is that public services providers are not necessarily distinguished by ownership or management tasks. What does distinguish public services is purpose and the nature of the problems that public policy programs are trying to resolve. Services marketing and management generally ignores the implications of the characteristics of public services. 'Public' characteristics explain the profound ambiguity in 'customer-orientation' for professional public services (McGuire 1997).

Changing from professional to consumer control, necessary for more responsive service, is difficult. Market contestability through competition between service providers to give consumers greater choice is one strategy for client responsiveness. A second is linking budget allocations directly to service delivery outcomes including quality. A third strategy is marketing techniques to give consumers a stronger voice through consultation, formal satisfaction surveys and complaints mechanisms.

One impediment to client responsiveness is provider knowledge and power, derived from their specialist knowledge. Traditionally professionals controlled service standards which critics argue had little regard for clients. Service charters, external accreditation and soliciting client views on quality are intended to overcome provider capture. In a competitive market, clients are customers. A weaker client service imperative is a second impediment to client responsiveness.

Markets rely on customer choice and exit for consumer responsiveness. Clients are customers and consumers. A direct, if complex, link between customer satisfaction, retention and profitability is a strong imperative for client responsiveness. Policy processes rely on citizen voice and participation for consumer responsiveness. Competition between service providers is for public funds or scarce budget resources. Funders and purchasers are the 'customers' of service providers. Clients are consumers in need of services and citizens. Access to public services is decided primarily by political and professional judgement (Pollitt 1988). Clients are citizens with rights to obtain control through different accountability mechanisms than customers (Patterson 1998). Responsiveness is a political imperative.

Consequently marketing strategy is ambiguous for public services. Customers are multiple stakeholders with different and often conflicting interests. Budget funding is the main source of revenue for public services. Equity has to be added to productivity and quality but there is no place for equity in the service profit chain. Stakeholder or social values have to be added to shareholder or economic value. Judgements are qualitative and inherently political. Providers are managers and professionals. Clients are consumers and citizens. Professional public services reveal the tension between responsiveness to policy priorities of representative government, and to the needs of clients who are consumers and citizens.

Marketing is a managerial model that disguises rather than resolves, political problems. As Chalmers & Davis (2001, 84) observe, "the implementation literature makes depressing reading" and human services is the most difficult case for policy and implementation. The language of 'purchasers-providers', 'customers' and 'products' suggests a clarity that does not exist in practice. Gaps between policy intentions and service delivery outcomes are an enduring problem, well documented in public and management research. The chain from talk and decisions to results is long and complex (Pollitt 2001). What appears to be an implementation problem may be a selection problem.

Marketing techniques have much to offer public service providers seeking to improve service delivery, client relationships and consultation. Market research techniques have much to contribute to policy analysis evaluation. However the core concepts of marketing are deeply

ambiguous for professional public services with multiple 'customers' and contested 'values'. Economic value is a narrow view of performance. Strategic marketing theory displaces public policy with market processes. Allocation and distribution of professional public services are based on political rather than market processes. There is more to social policy than strategic marketing and there is more to service delivery than customer service. Whilst marketing techniques have much to offer public service providers, redefining clients as customers is neither necessary nor sufficient to improve service. 'Customer orientation' is at best unhelpful and at worst misleading in thinking about the exchange relationships for professional public services. As the then Secretary of State for Health William Waldergrave, in the 1990 Trafford Memorial Lecture observed (Walsh 1994, 67):

'Our customers do not come because the price of beans is less ... they come because they are ill, not seldom frightened, and they want help and expect care ... Without remitting for one moment the pressure to get a better management system, borrowing what is useful from business, let us watch our language a bit. It just bears saying straight out: the NHS is not a business, it is a public service and a great one.'

Table 1: Market Type Mechanisms

| | |
|--|---|
| Service agreements (contract) | Specify resources and performance standards <ul style="list-style-type: none"> • between different levels of government • between autonomous public agencies • with non-profit agencies • with private agencies |
| Purchaser-provider splits (separation) | Separate funding and service delivery |
| Competitive tendering (quasi market) | Competition between providers for contracts to deliver services to designated groups |
| Internal markets (separation and competition) | Competition between purchasers and providers Separates funding (policy), purchasing (regional authority) and providing (service delivery) |

Table 2: Three Perspectives on Marketing

| | Culture | Strategy | Techniques (techniques) |
|-----------------------------|---------------------------------|----------------------------------|------------------------------------|
| Language | Customer orientation | Where and how to compete | Extended marketing mix' |
| Core principles | Marketing concept | STP CRM | 4Ps 7Ps Processes |
| Provenance theory | Generic marketing concept | Strategic marketing | Marketing management |
| Focus | Company wide | Marketing strategy | Marketing management |
| Key assumption | Customers are a key stakeholder | Competitive markets | Controllable variables |
| Timeline | Organisation Customers | Market driven Customer driven | Functions Processes |
| Performance measures | Customer responsiveness | Market responsiveness | Managing service delivery |
| Public services | Accountability to clients | Policy processes | Service delivery |

Source: Adapted from Webster 1994

Abbreviations:

STP: segmentation, target marketing and product positioning

CRM: customer relationship management

4 Ps: Product, price, place (distribution) and promotion (marketing communications)

7 Ps services: product, price, distribution, promotion, people, physical evidence, process

Table 3: Perspectives on Marketing

| Label | Focus (unit of analysis) |
|----------------------------|---|
| Product marketing | Product differentiation and positioning "Product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need (Kotler et. al. 2001 Glossary)." Extended product concept (Levitt 1983) |
| Marketing management | 'Extended marketing mix' "Analysis, planning, implementation and control of programs to create, build and maintain beneficial exchanges with target buyers for the purpose of achieving organisational objectives (Kotler et. al. 2001 Glossary)." |
| Strategic marketing | Market-oriented strategic planning STP to attract new customers CRM to retain valuable customers |
| Consumer marketing (B2C) | Consumer markets 'Consumption' Exchanges between buyers and seller for personal use |
| Industrial marketing (B2B) | Business markets 'Derived demand' Exchanges between buyers and sellers for use in further production |
| Services marketing | Markets for intangibles Exchanges between buyers and sellers for further production or personal use (B2B and B2C) |
| External marketing | 'Sales' 'Giving promises' |
| Internal marketing | 'Employees' |
| Interactive marketing | Customers as 'part-time marketers' Provider-customer interactions |
| Transaction marketing | 'Market share' Attracting new customers |
| Relationship marketing | 'Loyalty, trust and customer retention' Creating, maintaining and enhancing relationships with valuable customers (and other stakeholders) |

Table 4: Definitions

| Concept | Definition |
|----------|--|
| Customer | A buyer, a purchaser, one who customarily purchases |
| Consumer | One who consumes, as opposed to producer |
| Client | One who is under the protection or patronage of another, a dependent |
| Citizen | An enfranchised inhabitant of a country, as opposed to an alien |

Source: *The Shorter Oxford English Dictionary on Historical Principles, Third Edition (1973) Clarendon Press Oxford.*

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Benchmarking Community Services: "nailing Jello to a tree"

Linda McGuire*

Abstract

Increasingly program grants to community sector agencies are service agreements or contracts for specific units of service for particular groups of clients, and performance reporting is a condition of funding (Ryan, 1999; Lyons, 2001). Funds are appropriated for "specified services to achieve defined outcomes" (Industry Commission [IC], 1996). Contracting has become an organising principle (Davis, 1997 and 2000), and great faith is placed in performance monitoring to improve accountability, policy coordination and service delivery. In practice, service agreements and contracts with community sector agencies have encountered implementation problems associated with defining services and selecting appropriate performance measures (Ryan and Brown, 1998).

The Review of Commonwealth/State Government Service Provision (the Review) is a cooperative development between the Commonwealth, State and Territory governments. The secretariat, responsible for performance reporting, is located in the Productivity Commission. Four working groups have developed performance indicators for aged care, disability services, children's services (child care), protection and support services. The target audience for performance reporting is policy makers in central and line agencies. Evidence is the new currency of evaluation in policy debates about cost-effective services. Two issues arising from the approach adopted by the Review are quantitative outcome measures and a production process model of performance for community services. An American euphemism that defining public management is as difficult as "nailing Jell-O to a tree" (Shafritz and Hyde, 1992: 443) is a powerful metaphor for the problem of selecting performance indicators and associated measures for community services.

Key Words

Benchmarking, community services, performance indicators, performance measurement, professional services, public services.

Introduction

A federal system divides responsibility for social policy and publicly funded welfare services between three levels of government in Australia. The Commonwealth Government dominates funding for social welfare services, but responsibility for delivery is fragmented in complex networks that cross public-private boundaries and all levels of government. Contracting and competitive tendering further fragments delivery systems. Coordinating policy and service delivery, vertically between governments and horizontally between programs, is a challenge.

Two decades of financial management reform have changed the basis of funding in purchaser-provider arrangements for community services. The shift to outputs and outcomes budgets and performance reporting as a condition of funding explain the growth of performance measurement (McGuire, 2003).

Purchaser-provider arrangements are a variant of the principal-agent model of rational choice that separates policy agencies from service delivery contractors (Walsh, 1995). Compressed by Osborne and Gaebler into a powerful slogan that 'governments should steer and not row' (Davis and Wood, 1999), performance indicators are the steering mechanism in this model. Performance reporting is central to accountability and financial management, and agencies responsible for funding and delivering publicly funded services are subjected to systematic performance measurement.

The Review of Commonwealth/State Government Service Provision (the Review) is a cooperative development between the Commonwealth, state and territory governments for 'whole-of-government' performance reporting. Efficiency and effectiveness indicators have been developed to benchmark the

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performance of what are described as 'social infrastructure services'. Transparent performance reporting against nationally agreed objectives is a strategy to improve accountability, policy coordination and service delivery. The Review compares service efficiency and effectiveness between the states in six areas – education, health, justice, housing, emergency and community services. This paper examines benchmarking for community services. Four working groups have developed performance indicator frameworks for aged care, disability services, child care services, child protection and out-of-home services and the Supported Accommodation Assistance Program (SAAP).

The first section of this paper examines performance reporting by the Review. The philosophical stance of the Productivity Commission (PC) explains the approach. The head of the PC chairs the Steering Committee that manages the Review and the secretariat, responsible for performance reporting, is located in the Commission. Key features of the approach are transparency and independent performance measurement against agreed performance indicators. The Review is a work in progress guided by three broad principles – a focus on measuring outcomes, a complete set of indicators against all important objectives and comparable data for all governments (Banks, 2002). Effectiveness indicators and nationally comparable data both represent substantial progress in performance reporting.

The second section considers the approach to performance measurement. Benchmarking results applies a production process model that raises two issues for community services. The first is transferring performance measures from manufacturing to 'professional' services. The interactive nature of service processes requires a different approach to measuring performance. The second issue is transferring measures from private to public services. Performance is complex and contested for public services with multiple stakeholders, and this requires different indicators and associated measures.

The paper concludes by considering the implications of performance measurement in the

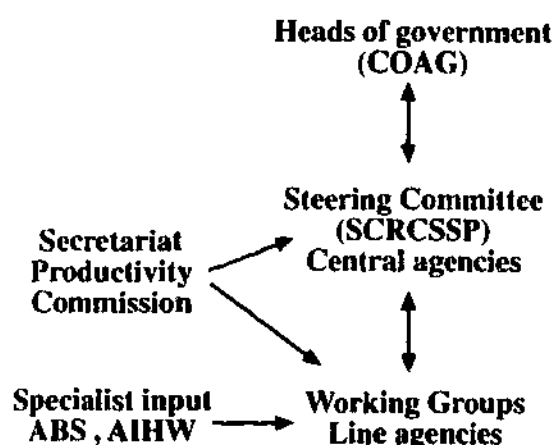
Review for government-community relationships. The Review was established to provide systematic comparable data (Banks, 2002), directed at external accountability and central policy control. Performance monitoring is a strategy to reduce the gap between policy objectives and results achieved by autonomous agencies and contracted service providers. In theory, agreed objectives and transparent reporting against a balanced set of performance indicators overcome the problem of incomplete information in contractual relationships (IC, 1996). In practice, suitable effectiveness indicators and measures have inhibited performance reporting for community services (PAEC, 2002). The question for community sector agencies is how the Review changes accountability relationships and the consequences of performance reporting for policy and service delivery.

Monitoring community services for the Council of Australian Governments

Initiated at a Special Premiers' Conference in 1993, the review is the first systematic attempt to develop objective and consistent data to compare the performance of social welfare services between governments. Performance is defined as "how well a service meets its objectives", and the emphasis is on comparing results defined as "outcomes against agreed national objectives". The primary purpose is to develop reliable efficiency and effectiveness indicators to compare the costs of services and results "to assist government decision making" (SCRCSSP, 2002: Chapter 1).

An annual publication, known as the 'Blue Book', reports on performance in six key areas – education, health, justice, emergency services, community services and housing. In 2000–2002 these services accounted for \$64 billion, representing 27.5% of government expenditure and 10% of GDP (SCRCSSP, 2002: 5). Education (\$24 billion), Health (\$18.7 billion) and Community Services (\$9.5 billion) are the three largest programs. Comparative information on efficiency and effectiveness is presented for six state and two territory governments. The reports are intended for use in strategic budgeting, policy planning and evaluation by governments.

Figure 1. Structure of the Review



Source: Banks (2002)

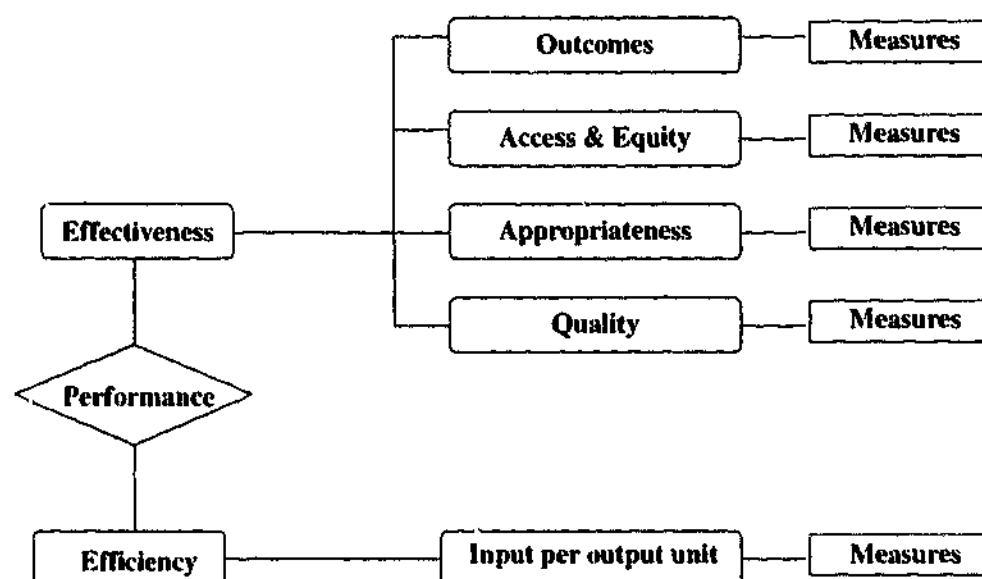
The structure for implementing the Review, shown in Figure 1, is a cooperative approach based on participation of all governments. A committee with the cumbersome title the Steering Committee for the Review of Commonwealth/State Service Provision (SCRCSSP), comprising senior officials from central agencies of the Commonwealth and state governments, manages the Review. The SCRCSSP is responsible for signing off on the reports (Banks, 2002). The Head of the PC is the independent chair,

ensuring the cooperation of all governments (PC, 1999). An independent secretariat in the PC is responsible for reporting against agreed indicators which enhances the reliability of measurement (Pollitt, 2000). The PC generally relies on data collected by external agencies. Responsibility for establishing national objectives and developing performance indicators is delegated to expert working groups. Each group includes senior staff of relevant line agencies from the Commonwealth and states who take advice from specialist research groups, such as the Australian Bureau of Statistics and the Australian Institute of Health and Welfare (Banks, 2002).

Efficiency and effectiveness indicators

Performance indicators and associated measures in the Review enable systematic comparison of how successful governments are in achieving agreed objectives (IC, 1996; Banks, 2002). The general framework of performance indicators, shown in Figure 2, is based on the "three Es" model of economy, efficiency and effectiveness" (SCRCSSP, 1997: 10). Efficiency is defined as how well organisations use resources to produce units of service and the general indicator is inputs per unit of output. Outputs are defined as the services delivered to clients by or on behalf of government. Effectiveness is defined as how

Figure 2. General performance indicator framework



well the service outputs achieve the agreed objectives. The general framework has four effectiveness indicators. 'Actual outcomes' measures the impact or consequence of a service in relation to policy objectives. Short term (or intermediate) output and longer term (or final) outcome indicators are used. Access and equity indicators measure timeliness, affordability and services to designated groups. In response to a COAG request, the review is concentrating on developing access and equity indicators for indigenous Australians and people living in rural and remote locations. Appropriateness indicators measure how well service delivery meets clients' needs. Quality indicators measure 'conformance to standards' and/or 'fitness for intended purpose'. These indicators are the basis for comparing performance between the states and making judgements about the efficiency and effectiveness of different approaches to service delivery. Priority is given to services provided by all governments (Banks, 2002).

Working groups have adapted this general framework to develop a 'suite of performance indicators' for twenty-two different services. Described as the 'engine room', the working groups include representatives of eighty or so line agencies from all jurisdictions (Banks, 2002). Each working group is responsible for agreeing on national objectives and selecting performance indicators, and there is considerable variation between different services. Objectives may be specified in legislation, as for aged care; in formal Commonwealth-State agreements as for housing and disability services; decided by ministerial councils, as for school education; or, agreed on by the working party, as for health. According to the Review, specific indicators "take into account the characteristics of the service, its clients and providers" (SCRCSSP, 1998a: xxiv). Each working group has a 'data manual' that sets out in detail the "counting rules and definitions for each set of data to be provided" (Banks, 2002: 10).

The balance between effectiveness and efficiency is striking, as effectiveness accounts for 75% of the total indicators. The number indicators and definitions of efficiency and effectiveness vary between services.

All frameworks include a measure of cost per service unit. Table 1 contrasts performance indicators in the different frameworks. Only general practice and mental health have selected indicators for all four effectiveness criteria in the general framework.

There is considerable variation in effectiveness indicators, both between and within service areas. For example, the Aged Care Working Group has selected quality, appropriateness, and access and equity effectiveness indicators. The Children's Services Working Group has selected outcomes, access and equity, and quality indicators for childcare. However a closer inspection of the designated indicators suggests there is considerable ambiguity in the definition of indicators between different frameworks. For example, 'client satisfaction with appropriateness' is an access and equity indicator for disability services and 'satisfaction with hours of provision' is an outcome indicator for childcare services.

Effectiveness indicators include client views in some frameworks. There are indicators for clients' and carers' satisfaction with disability services. Aged care includes compliance with service standards and client perceptions. Accreditation was added to client perceptions for childcare in the 2002 report. Complaints and redress are important alternatives to 'satisfaction' surveys to monitor effectiveness from a client perspective, but aged and child care are the only frameworks that include complaints as a quality indicator. Rent assistance is the only framework that includes 'review of decisions' as an indicator of appropriateness.

Variation in effectiveness indicators is to be expected, given the range of services with different objectives. There is no obvious pattern in the differences within and between the six service areas. Public housing provides a reference point as the only framework with nationally comparable reporting on a complete set of indicators. Ambiguity in the classification of effectiveness indicators in the general framework may explain variation and apparent indicator gaps. An alternative explanation may be the availability of measures. In selecting indicators, reporting comparable data has a higher priority than a better indicator with no available data. (Banks, 2002).

Table 1: Reporting on performance indicators with at least one comparable measure 2002

| Service | Performance Indicator | | | | | |
|-----------------------------------|-----------------------|----------|-----------------|-----------------|---------|--------------|
| | Efficiency | Outcomes | Access & Equity | Appropriateness | Quality | Client Views |
| Education | | | | | | |
| School education | ✓ | ✓ | ✓ | × | × | × |
| VET | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Health | | | | | | |
| Public hospitals | ✓ | × | ✓ | ✓ | ✓ | × |
| General Practice | ✓ | ✓ | ✓ | ✓ | ✓ | × |
| Maternity services | × | ✓ | × | × | × | × |
| Breast cancer | × | ✓ | × | × | ✓ | × |
| Mental health | ✓ | ✓ | × | × | ✓ | × |
| Justice | | | | | | |
| Police | ✓ | ✓ | ✓ | × | ✓ | ✓ |
| Court administration | ✓ | × | ✓ | × | ✓ | × |
| Corrective services | ✓ | ✓ | ✓ | × | ✓ | × |
| Emergency management | | | | | | |
| Fire | ✓ | ✓ | × | × | × | ✓ |
| Ambulance | ✓ | × | × | × | × | × |
| Community services | | | | | | |
| Aged care | ✓ | × | ✓ | ✓ | ✓ | ✓ |
| Disability services | ✓ | ✓ | ✓ | × | ✓ | ✓ |
| Child care | × | × | ✓ | × | × | × |
| Child protection and | ✓ | × | × | × | × | × |
| Out-of-home care | × | ✓ | × | × | ✓ | × |
| SAAP | ✓ | × | ✓ | ✓ | × | ✓ |
| Housing | | | | | | |
| Public housing | ✓ | × | ✓ | ✓ | ✓ | ✓ |
| Community housing | ✓ | × | × | × | × | × |
| Aboriginal Rental Housing Program | ✓ | ✓ | ✓ | ✓ | × | × |
| Commonwealth rent assistance | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Source:

Table 2.1 SCRCSSP (2002) page 29 and Frameworks in Volumes 1 & 2.

The report is available at <http://www.pc.gov.au/gsp/2002/index.html>

Notes:

- ✓ Reporting on at least one comparable measure against the indicator
- ×

No indicator/no comparable measure for performance reporting

Performance reporting

Performance information is evidence about performance that is collected and used systematically to enable judgements (Barrett, 1997: 10). The Review was established to provide systematic comparable data for 'social infrastructure' services. The purpose of reporting in the Blue Books is to enable policy makers to compare efficiency and effectiveness (Banks, 2002). National averages are the benchmark. There are no league tables of data for individual agencies. Performance reporting is independent and the main objective is to provide 'sound, reliable data' (PC, 1999). The secretariat in the PC coordinates the publication of performance measures by presenting data from a range of sources in a consistent framework. Wherever possible existing data are used. Not all of the data published in the reports is nationally comparable. However, the PC argues it is better to publish imperfect data that enables some comparison and acknowledge its limitations (Banks, 2002).

This is a significant project backed by substantial

resources and the political authority of COAG. The scale and scope of performance information is unprecedented in Australia, and possibly internationally. Since 1997 the "Blue Book" has been published annually. Reporting consists of two parts - a qualitative profile of the service and policy developments, and quantitative results against agreed indicators. Comments from each government are included for each service. Definitions of performance measures and tables of all available data are published for each framework. Reporting on nationally comparable performance measures also varies considerably between services. Nationally comparable performance data is reported for 45% of all indicators. Overall reporting is balanced with nationally comparable data for 36% of efficiency and 49% of effectiveness indicators. Whilst reporting on efficiency indicators increased significantly between 2000 and 2002, there is still considerable variation between services. New efficiency indicators for Child protection and Out-of-home care were introduced in

Table 2 Performance reporting for community services in 2002

| | Aged Care | Disability | Child Care | Protection & Support | SAAP |
|---|--------------|--------------|-------------|-------------------------|--------------|
| Efficiency Indicators | 2 | 3 | 2 | 6 | 6 |
| Nationally comparable data | 1 | | | | |
| Data incomplete or not strictly comparable | 1 | 3 | 2 | 6 | 5 |
| Effectiveness Indicators | 16 | 13 | 9 | 18 | 8 |
| Nationally comparable data | 10 | 9 | 1 | 4 | 5 |
| Data incomplete or not strictly comparable | | 1 | 4 | 4 | 1 |
| Reporting on all indicators | 12/18 66% | 13/16 81% | 7/11 64% | 14/24 58% | 11/14 78% |

Source:

SCRCSSP 2002 Figures 12.7, 13.2, 14.5, 15.3, & 15.6.

Notes:

Separate efficiency and effectiveness indicators are designated for 'Child protection' and 'out-of-home care services'. Three new efficiency indicators with associated measures were introduced for each service in 2002. These are measure cost per unit of service.

the 2002 Report.

The Review has been grappling with performance indicators for community services since it commenced. SAAP and child protection and support services were included in the first report in 1995. Aged care, disability and child care were included in the 1997 report. Table 2 shows the status of performance reporting for community services in 2002. Disability services has the most complete set of measures, and child protection the most incomplete. The Review is working to develop nationally comparable efficiency measures that reflect the full cost to government (SRCSSP, 2002). Aged care is the only community service with comparable reporting on efficiency, but there was a significant increase in reporting on efficiency indicators in all community services in the 2002 Report.

From the first report in 1995, the need for better effectiveness indicators has been recognised. The many changes to the frameworks reflect the search for suitable indicators with comparable measures. Reporting is concentrated on outputs that are intermediate measures of outcomes. Public housing is the only framework with reporting against all indicators. Client and community perceptions were identified early in the Review as "a crucial missing ingredient" (SRCSSP, 1997: v). In 2001 the results of a specially commissioned national client satisfaction survey for disability services were reported (SRCSSP, 2000).

The Blue Books are a 'work in progress' and represent a substantive increase in performance reporting on effectiveness. Prior to the Review the only nationally comparable performance information was data comparing costs and expenditure per capita collected by the Commonwealth Grants Commission (CGC). In contrast, the data published by the Review enables some comparison between the states on efficiency and effectiveness of service delivery.

Impact of performance reporting

Performance reporting is a mechanism for external accountability, policy coordination and internal management improvement. The purpose of reporting in the Review is (SRCSSP, 1995: iii):

to inform parliaments, governments, government service agencies, and the clients of these agencies - the wider community - about their overall performance, based primarily on results rather than inputs.

The target audience is central and line agency managers responsible for budget preparation, strategic planning and policy evaluation (SRCSSP, 1998b). Assessing the impact of the Blue Books on policy and service delivery is difficult. A survey of users revealed a high level of awareness and use of the reports by government and non-government agencies (SRCSSP, 1998b). Information was generally regarded as highly credible, relevant and timely. Central agencies considered the reports more important for strategic or policy planning and evaluation. In contrast, line agencies regarded the reports as more important for assessing resource needs. Parliament and the wider community were not included in this survey.

The arguments for performance measurement in the Review are quite explicit. First, transparency improves accountability to users and leads to better policy outcomes. Second, outcome indicators focus debate on objectives rather than processes. Third, a suite of efficiency and effectiveness indicators captures all areas of performance. To this end the Review has concentrated on developing a balanced set of indicators and nationally comparable measures for performance reporting. The head of the PC, as Chair of the Steering Committee, is quite clear that reporting comparable data has a higher priority than a better indicator with no data (Banks, 2002).

Performance measurement attracts criticism on essentially two fronts (Banks, 2002). One is that measurement is selective not objective and value free (Zifcak, 1994). Criticism of the justice performance indicators by the Chief Justice of NSW is an example (Spigelman, 2002). The counter argument, articulated by the PC, is that quantitative measures are transparent and only one input into policy evaluation (Banks, 2002; Quadrant, 2002). A different but related criticism is that performance measurement is incomplete because indicators do not capture all the important dimensions. This is reflected in debates about the suitability of particular indicators and associated measures.

Selecting performance indicators and measures for community services

Benchmarking results by comparing 'cost-effectiveness', not best practice, is the basis of performance reporting in the Review. Benchmarking applies a production process model of performance management to community services. 'Value for taxpayer funds' is established by comparing the efficiency and effectiveness of service provision between the states. The language and logic reflects the philosophical stance of the PC. In the absence of market competition, 'yardstick' competition is a second best solution to improve productivity and responsiveness to users. Benchmarking is a substitute for market competition. Performance indicators and measures substitute for market price signals (SCRCSSP, 1995; PC, 1999). A 'service process model' is the basis for selecting indicators and measures in the Review (SCRCSSP, 2001: 10):

Governments have a number of objectives/desired outcomes for the community. To achieve these objectives or desired outcomes, governments fund service providers and products and/or services. Service providers transform these funds/resources (inputs) into services (outputs) and the outputs contribute to the achievement of a government's actual outcomes.

The issues are universal concepts and a generic model of performance. The debate is about similarities and differences between public and private services. Supporters argue performance management will improve accountability and service delivery (MAB, 1997; PC, 1999). Critics argue generic management techniques underestimate the significance of differences between private and public services. Community services pose a particular challenge for performance measurement and transfer is more complex than a simple public/private dichotomy. Various classified as 'social infrastructure' (SCRCSSP, 1995), 'human' (SCRCSSP, 1997), 'social welfare' (ACOSS, 1999) and 'professional' (Silvestro *et al.*, 1992), community services have 'public' and 'professional' characteristics that require a different approach to performance measurement.

Specifying 'services'

Standardised service outputs and quantitative outcome measures enable comparison of 'cost effectiveness' of service outputs that contribute to policy outcomes (Carter *et al.*, 1992; Smith, 1996; Talbot, 1999). Separating and standardising inputs, outputs and outcomes is a production orientation based on manufacturing concepts (Gummeson, 1998; Grönroos, 2000). Services management starts from a fundamentally different perspective on process that requires a different approach to specifying and measuring performance (Gummeson, 1998). Intangibility, coproduction and provider-customer interactions are 'service' attributes that change the nexus between costs, quality and value.

Outputs from manufacturing processes are tangible products that lead to outcomes for consumers and providers. A production process model measures efficiency by the ratio of inputs to outputs, assuming standard units of service and constant product quality. However, service outputs are processes that cannot be separated from providers and consumers, and consumers participate to some extent in delivery. This 'coproduction' adds an interactive dimension to efficiency and effectiveness and is a significant difference between manufacturing and service processes. Intangibility of services creates uncertainty about outputs that means specifying quality is difficult. Service quality has technical and process features that require different measures (Grönroos, 2000). Technical quality or 'reliability' relates to what is delivered and is usually measured by conformance to standards. Process quality relates to how the service is delivered and is usually measured by 'satisfaction' based on clients' perceptions. Direct provider-client contact during delivery increases the variability of service processes (outputs) and outcomes. Consequently services are harder to standardise than manufactured goods and quality is harder to specify. A service process model overcomes these specification and measurement problems by monitoring the cost of inputs and the value of outcomes, using sales revenue as a proxy (Smith, 1993; Talbot, 1999).

With the exception of housing, the services in the Review are 'professional', signalling that delivery is

process rather than product oriented, customised rather than standardised and high on provider-client contact (Silvestro *et al.*, 1992). In contrast Commonwealth rent assistance and public housing are 'mass' services where delivery is product oriented, standardised and low contact. Specifying and measuring performance is more difficult for professional than mass services. This may explain why these services have the most complete performance reporting.

Standardising 'professional' services

Professional services offer care and expert advice, provided by specialists with technical knowledge and qualifications (Harvey, 1996). Intangibility of services leads to divergence or asymmetry between providers and consumers on 'appropriateness' and 'quality' (Walsh, 1991). Professional services are high on 'credence attributes', which means providers have information about technical quality that clients cannot evaluate. Clients have more information about process quality or 'customer service'. For example, aged care residents and their families cannot judge the technical expertise of professionals and focus more on what Talbot (1999) refers to as the "hotel aspects of service" – courteous staff, palatable meals and clean wards. Balanced reporting on quality requires indicators and measures reflecting technical and client perceptions of process quality. Aged care, disability services and child care, include indicators for technical and process quality but gaps in measures mean that quality is generally under reported.

Credence attributes of professional services also means it is difficult for clients to specify needs. The power of professionals derives from their specialist knowledge and control of technical quality standards, which critics argue has little regard for client perceptions (Pollitt, 1988; Harvey, 1996). External accreditation is one strategy to overcome provider capture and increase responsiveness to users. Aged care and child care are the only community services with an external national quality accreditation system. Monitoring client satisfaction, perceptions and complaints is another strategy to increase responsiveness to users (IC, 1996).

Standardising outputs and quality to measure

efficiency is more difficult for professional services because of the active role of consumers in delivery and discretionary judgement on the part of providers (Walsh, 1995; Harvey, 1996). Consequently physical and financial measures of efficiency have limitations (Grönroos, 2000). Resource economy and capacity utilisation are physical measures that do not measure cost or revenue effects. Financial measures such as cost per unit ignore the quality of outputs. Revenue-generating efficiency measures, such as billable hours, value professional services using sales revenue. This is an economic definition of value. Efficiency indicators in the community services are generally costs per unit of service.

Valuing 'public' services

Measuring performance is not easy for professional services, but is more difficult for public services as performance is complex and contested (Walsh, 1991; Smith, 1993; Carter, 1998; Pollitt, 2000). Confusion in the inputs-outputs-outcomes model for public services is reflected in the many variations in practice (Carter *et al.*, 1992; Smith, 1996; Talbot, 1999). 'Public' characteristics add to the ambiguity in a production process model for professional services (McGuire, 1997 and 2003). Social value, collective decisions and public accountability are 'public' attributes that change the nexus between costs, quality and value. This requires a different approach again to specifying and measuring performance (Smith, 1996).

Service outputs (processes) are intermediate measures of outcomes against social policy objectives. Public services have social welfare objectives and value is measured using social indicators (Eckersley, 1998: 114). Social value is by nature more qualitative than quantitative and suitable indicators and measures are not always available. Sales revenue and profitability are 'bottom line' measures of economic value for private services. Social impact and equity are 'bottom line' measures of social value for public services (Carter *et al.*, 1992). Value becomes values and is contested for socially controversial programs such as child protection (Walsh, 1995; Pollitt, 2000). Considerable variation is evident in the Review.

Outcomes are designated in the child care framework, but indicators have yet to be developed. Child protection designates 'substantial rate' as an outcome, which is an intermediate measure. Aged care has no designated outcome indicator, but does report on access and equity. In contrast, disability services reports on four participation outcomes.

Public services have multiple stakeholders with divergent views on 'outcomes', 'appropriateness' and 'quality'. A curious mix of satisfaction for 'client', 'customer' and 'community' as indicators of quality, outputs and outcomes suggests confusion about what is being measured and why. Aged care and child care have selected 'client satisfaction' indicators of quality. Out-of-home care has selected a 'customer satisfaction' indicator of quality. Collective choice makes the customer metaphor deeply ambiguous for public services (McGuire, 1997). Revenue for service providers flows from budget-funded agencies or 'purchasers'. Access to services is decided on eligibility or assessed needs, not customer choice. Giving voice to client views in performance measurement is important for professional public services given information asymmetry between providers and clients and their non-traded status. However gaps in indicators and measures limit reporting on clients' views on effectiveness.

Public accountability is the fundamental distinction between public and private services. Rights are central to public accountability, and performance has compliance dimensions (Barrett, 1997). Clients are citizens rather than 'customers' and political processes decide access to services. Public accountability for social welfare services is a voice rather than choice option based on public rather than private law (Walsh, 1995). 'Output' quality resides in delivery processes for services. Transparent eligibility and access decisions are an indicator of process quality for public services. Complaints and redress are measures of process quality (Pollitt, 1988; Walsh, 1991; IC, 1996). Ombudsman, administrative appeal and judicial review processes in Australia provide citizens with avenues of complaint and redress. Associated agencies already collect data. Given this history, complaints and redress are a surprising

omission in the Review. Aged care and child care are the only frameworks in the Review with a complaint indicator, but only aged care reports on complaints. Rent assistance is the only service that includes review of decisions as a performance measure.

The Review is intended to fill the missing link in performance management indicators to monitor the cost effectiveness of government-funded services. In the words of the Chairman, developing a balanced suite of efficiency and effectiveness indicators and nationally comparable measures is 'a work in progress' (Banks, 2002). Gaps in performance indicators and measures in the Review do reflect conceptual and technical problems that transcend a simple public/private dichotomy (Carter *et al.*, 1992). Coproduction means the relationship between costs, quality and performance is complex for services. A production process model of performance measurement underestimates the conceptual difficulties in defining efficiency and effectiveness for professional services. However, the relationship between efficiency, effectiveness and value is even more complex and contested for budget constrained public services. The language of 'purchaser and provider', 'outputs and outcomes' and 'customer' suggests a clarity that does not exist in practice for public services. The final section considers implications of performance reporting for community services.

Implications for government-community sector relations

External performance monitoring is an important form of public accountability and the Review provides more information on the performance of community services at a system level. According to the Commonwealth Auditor General, the benefits are greater transparency of objectives and accountability for results (Barrett, 1997). On this score the Review represents a significant development in performance reporting for community services. Agreed objectives, transparent effectiveness indicators and independent reporting are the strengths. Although much of the current reporting does not enable comparison between governments, there is more information on effectiveness.

The primary focus of the Review is comparing the cost effectiveness of government programs, not agencies that deliver services. Performance measurement is intended for use in policy evaluation. The indicators and measures selected determine whose interests are taken into account in allocating scarce budget resources, and who gets access to services. The welfare sector has been critical of a shift in service agreements from a focus on community needs to government efficiency objectives (ACOSS, 1997, PAEC, 2002). However, the Review does put effectiveness of public funding under the spotlight. The paradox of performance measurement is transparent indicators and comparable measures increase rather than resolve political conflict over the funding and distributional consequences of social policy decisions. Open and transparent public reporting to build trust also invites controversy and debate about performance. Funders, service providers, professionals and clients have a different perspective on performance.

Performance measures have become an essential tool in central agency control of fragmented delivery systems (Carter *et al.*, 1992). Performance reporting in the Review increases quantitative information about costs, outputs and outcomes. Supporters argue transparent indicators and performance reporting improve policy decisions (MAB, 1997; Barrett, 1997; DoFA, 2000). Critics argue limiting policy evaluation to what can be measured leads to tunnel vision (Smith, 1993; Walsh, 1995). One concern is that performance measurement changes the basis of policy evaluation from qualitative judgement to quantitative assessment (Zifcak, 1994). Another is that incomplete efficiency and effectiveness indicators increase, rather than reduce, the gap between policy intentions and service delivery. Imprecise allocation of costs distorts efficiency judgements. Gaps in effectiveness indicators distort value judgements.

The extent to which performance indicators and measures from the Review are being applied to service agreements and contracts for the community sector is not clear. What is clear is that outputs and outcomes budgets, and performance reporting as a condition of funding, are changing accountability relationships between government and the community sector.

A recurring theme in reviews of funding arrangements for community services is criticism by community sector agencies of the adequacy of performance measures and the impact on clients (PAEC, 2002).

An explicit objective of benchmarking is to improve responsiveness to clients. The Review represents progress in shifting the balance in performance reporting from efficiency to effectiveness, but it has met predictable hurdles. Professional public services pose the biggest challenge for performance measurement. Effectiveness and equity are harder to measure. Costs are easier to quantify than quality. Monitoring outputs and outcomes does not resolve the tension between efficient use of scarce budget resources and responsiveness to individual client needs. The client imperative is weaker than the productivity imperative for publicly funded services. Output-based funding focuses service delivery on throughput rather than client outcomes (PAEC, 2002). The risk of elevating costs over quality for government is dissatisfied citizens and declining trust in public services.

Performance indicators specify services and quantify value. The accuracy, validity and appropriateness of performance indicators are important because these influence community perceptions and political priorities (Eckersley, 1998). Inadequate indicators and comparable data are seen as the main impediment to performance measurement. Econometrics provides productivity indices for measuring the efficiency of activities and outputs have dominated evaluation of public services. Psychologists have joined economists as the new priests of quantification with instruments, in the form of psychometric scales, for measuring stakeholder attitudes and perceptions. Quantification that reduces value to econometric measures of productivity does not capture the social value of community services. Psychometric measures of client service do not adequately capture duty of care and equity dimensions that are fundamental to quality for community services. Benchmarking community services is like 'nailing Jell-O to a tree'. Community services test the limits of standardisation and quantification in a production process model of performance measurement.

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