

**ISSUES INHERENT IN
MEASURING AND
MONITORING QUALITY IN
CONTRACTED SERVICES**

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Abstract

Once the decision to contract a service has been made, and a contract agreed, an important question is how to ensure that service quality levels are maintained. By considering literature from a variety of disciplines, this paper considers issues inherent in the measurement and monitoring of quality in the context of contracted services. Key findings include the complexity introduced by the separation of purchaser and provider, the need to consider both business-to-business and business-to-consumer relationships, the lack of consensus about quality definitions and measures, the lack of guidance from the literature in terms of performance monitoring, and the need to ensure that the costs of quality measurement activities do not exceed the benefits of contracting. The analysis is used to develop a model that incorporates operations, strategy and marketing perspectives, and illustrates six key processes that need to be integrated to ensure a comprehensive approach to quality evaluation. This model provides managers with a framework for improving their quality monitoring practices with contractors and customers, and highlights areas for future research.

ISSUES INHERENT IN MEASURING AND MONITORING QUALITY IN CONTRACTED SERVICES

INTRODUCTION

During the 1990s there has been an increase in outsourcing and contracting in both the public and private sectors. This process introduces an intermediary into the service delivery chain and results in new relationships that incorporate both business-to-business and business-to-consumer elements. Consequently, specific management challenges emerge in ensuring that service quality levels are maintained and desirable quality outcomes are achieved, in a cost-effective manner.

This paper has two key objectives. Firstly, it aims to identify the issues inherent in measuring and ensuring quality in contracted services, and secondly, it aims to integrate these issues into a framework that can be used as a basis for establishing quality monitoring activities. To achieve these aims the paper draws on literature predominantly from economics, public administration, and services management to explore performance monitoring and quality measurement approaches in contracted services. It commences with a discussion of the trend to outsourcing and contracting in both the private and public sectors, and considers the effects of the increased use of contracting on quality. The process of performance monitoring in contracting is then considered to establish how quality measurement activities are generally undertaken. Finally, the literature review is used to develop an integrated model to guide both theory and practice.

THE TREND TO OUTSOURCING AND CONTRACTING

Core competencies

In strategic management theory, the region of 'core competencies' which is the 'center of gravity' of the firm is the area of primary (and often original) expertise (Prahalad and Hamel 1990; Wheelen and Hunger 1998). Value chain analysis explores the value-creating activities of a firm upstream and downstream from this area, and suggests that a firm may move backwards or forwards, and engage in activities which fall outside those core competencies, referred to as vertical integration. While many companies engaged in integration and growth activities during the 1980s, contemporary strategists suggest that firms should be cautious in their integration activities and concentrate on identifying those few core service activities where the company has or can develop a continuing strategic edge, with a view to eliminating, minimizing, or outsourcing other activities (Quinn 1992). The adoption of outsourcing as an important part of strategic decision-making is therefore related to the value-added that an activity represents and the activity's potential to contribute to competitive advantage and profitability.

The concept of core competencies and the resource-based view of the firm (RBV) has evolved from the theory of the firm, in particular, seminal work articulated by Coase (1937). Coase argued that the size and structure of the firm is essentially endogenous, based on economic considerations of efficiency, and he identified circumstances where market transactions were likely to fail (Domberger and Rimmer 1994). Much later, Williamson (1985), developing the area of transaction cost economics, further explored when internal production arrangements are best. These inherently logical views have been widely adopted by other authors, and it appears to be generally accepted that where transaction costs, such as the costs of implementing and monitoring a contract, are smaller than internal costs associated with planning and producing, business firms should contract out (Rimmer 1991; Prager 1994). Further, there has been a growth in specialized service businesses who, because of their specialization, can operate more efficiently than purchasing organisations, and can therefore provide a cost-effective service (Domberger 1998; Donahue 1989). Hence, while some authors may

challenge the robustness of dividing functions into core and non-core activities (Rimmer 1998), there is apparent consensus in the literature that scarce managerial resources should be used for the activities that enhance the competitive position of the enterprise, with other activities contracted to those who make such activities their core business.

Public sector reform

While private sector organisations are using outsourcing to facilitate retention of their competitive position, the public sector has embraced the fundamental role that competition can play in increasing efficiency and effectiveness (Hilmer 1993). Pressures for microeconomic reform, decreased budgets, and the drive for a more 'commercial' focus mean that the combination of competitive tendering and contracting (CTC) has been widely adopted as a vehicle to achieve reform in the new public management (Williams 1994) and, consequently, there has been a dramatic increase in outsourcing in the public sector, both in Australia and overseas (Domberger 1998; Domberger and Rimmer 1994). Domberger (1998) reviews the international contracting trends and concludes that "the scope for contracting is wide and getting wider .. statistical data are very scarce [but] occasional surveys and other attempts to quantify outsourcing trends suggest unremitting growth" (p19).

As indicated above, the use of contracting in government services is extensive and rising. The OECD (1997) alleges that its use is increasing as the evidence is fairly clear that contracting out can lead to efficiency gains, while maintaining or increasing service quality levels. The two areas, efficiency, and effectiveness (usually indicated by quality), are the terms most commonly referred to when the benefits of contracting are discussed. However, there is an imbalance in the number of studies that explore the two major outcomes (Hodge 1996), and while the conclusions relating to efficiency result in apparent consensus, effectiveness outcomes are more open to debate (Domberger 1998; Hodge 1998).

Referring to the concept of value, Hilmer (1993) also suggests that the benefits of competition are not solely derived from efficiency or cost considerations, but also include effectiveness elements. This view is summarised by King (1994), who states that "Competitive tendering and contracting out (CTC) involves an explicit attempt to bring the pressures of the market place to bear on the provision of government services. The potential benefits from contracting out include lower costs, improved service delivery and quality, and greater flexibility." (p75) The important problem that emerges from these assumptions is to determine which management processes and systems ensure that the potential benefits are, in fact, achieved. Domberger and Rimmer (1994, p440) suggest that the debate has "converged on three critical matters: the effects of CTC on prices, on quality and whether competition is more important than ownership in determining performance."

The three elements, price, quality and competition are, of necessity, related. Clearly, the probability that contracting out will achieve a reduction in the price of a service is positively related to the number of potential suppliers of that service, that is, competition (Borland 1994). Similarly, high levels of quality will usually incur higher costs and there will always be a degree of tension in the cost-quality nexus. Contract managers will obviously seek and apply 'value for money' criteria when awarding contracts (Domberger and Rimmer 1994, p442). Referring to government changes and initiatives in the U.K., Walsh (1991, p503) notes the connection between competition and quality, and suggests that the development of markets and contracts for services will only work effectively if the service that is to be delivered can be defined and its quality specified and monitored.

In management literature, customer-perceived value is a function of quality and costs (Heskett et al. 1997) and its assessment is clearly dependent on the perspective of the person doing the assessing. The concept of 'value for money' is linked to public sector accountability which may be enhanced by: requiring the contracting agency to specify the service and clearly allocate responsibilities; requiring the contracting agency to specify performance criteria; and providing the opportunity for persons to seek redress if dissatisfied (Rimmer 1998, p76). Initiation of all these activities lies with managers in

the contracting agency (or purchasing organisation). Domberger and Hall (1991, p30) note that the agent (contracting authority) needs to safeguard the interests of the principal (general public), in terms of assessments of service suitable for contracting, contract specification, contractor selection, and monitoring of service quality. Managing service quality becomes more difficult in contracting situations because, whether viewed from a private or public sector position, the separation of purchaser and provider means that the contracting agency (the purchaser) has the responsibility for managing the quality outcomes delivered by an intermediary.

Intermediaries and relationships in outsourced activities

The importance and role of the intermediary, that is, the contracting organisation, is another complex issue that emerges with respect to the wider adoption of outsourcing in the public sector. Rimmer (1998, p76) states that "... CTC inevitably involves redefining government responsibilities and relationships between key stakeholders, and introduces a new player - the contracted service provider - into the chain." The introduction of a new player inevitably results in distinct and unique relationships that need to be managed.

Figure 1 shows two types of customers that exist in outsourcing relationships. The purchasing organisation may be the customer (type 1), as the service may be returned to the organisation, for example, cleaning, administration, information technology, and human resource functions. Alternatively, the vendor may deliver the service to another customer (type 2) on behalf of the purchaser, for example, customer service functions, help lines, and many functions under the auspices of governments such as garbage collection, library and leisure centre management, and community health services. The customer type 1 is, of necessity, a business, whereas the customer type 2 will generally be an individual consumer.

The various relationships that emerge from the different types of contractors and customers are based on fundamentally different paradigms shown by different lines in Figure 1. For example, the relationship between a purchaser and contractor, where the service is returned directly to the organisation, is determined by a contract, with outcomes visible to the purchaser. However, when the contractor delivers a service on behalf of the purchaser, the other relationships that emerge are not readily discernible by the purchaser. Of particular interest is the accountability or marketing link shown between the purchaser and the customer type 2, where the purchaser (such as a government body or an organisation that has made promises) has responsibilities to consumers. These relationships do not appear to have been studied in detail, although recent research highlights the need to consider such relationships, their elements and antecedents (Halinen 1996; Hocutt 1998).

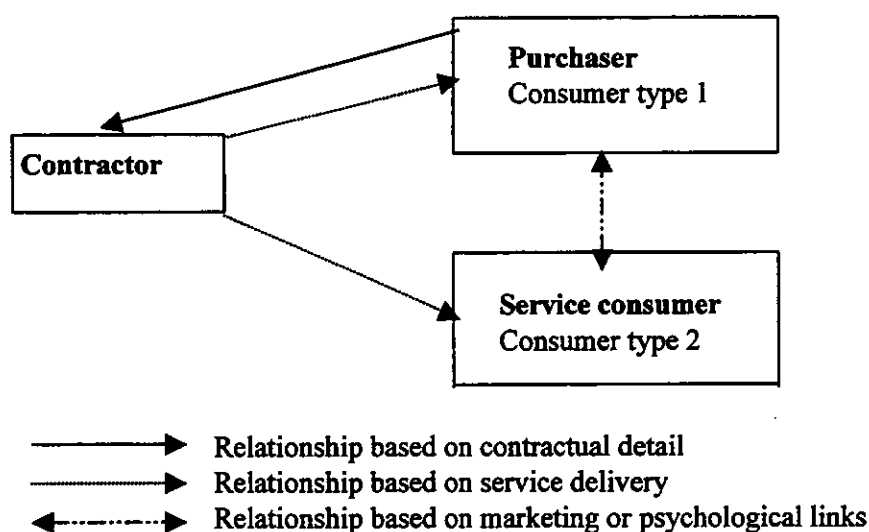


Figure 1 Relationships in contracted services

In summary, contracting leads to a separation of purchaser and provider, and introduces new business-to-business and often business-to-consumer relationships. The separation of purchaser and provider not only changes the dynamics of relationships but also changes the nature of key aspects of management. One such area is quality management (QM) and issues relating to quality are now pursued.

CONTRACTING AND QUALITY

Some authors have noted that if contracting out is dominated by financial considerations and contracts are awarded on price, then an erosion of quality may occur (Borland 1994; Domberger and Hall 1991). As indicated previously, organisations that engage in contracting out are concerned with effectiveness outcomes, as well as efficiency gains, and such concern encompasses quality as well as cost (Rimmer 1998, p77). Further, it is feasible that recipients of community services will be preoccupied with the effectiveness, and perceived quality, of service provision. In Australia, the evidence suggests that CTC can enhance accountability and does not generally lead to reductions in service quality (Hodge 1998; Rimmer 1998).

Evidence from studies

With specific reference to service quality changes in seven Australian and six overseas studies, the Industry Commission of Australia Report (1996, pp546-7) states that

“.. the extent of formal research into the quality effects of contracting is limited. Much of the information on this issue is of an anecdotal nature. .. The available evidence .. is varied, ranging from quite significant deterioration to substantial improvement in quality.”

Domberger (1994, p95) notes that, prior to contracting, in the public sector, formal evaluation mechanisms often did not exist and thus it is impossible to draw conclusions about changes in performance. It is possible that this accounts, in part, for the lack of empirical evidence about the impact of CTC and/or outsourcing on quality. Summarising findings from the Industry Commission Report and other sources, in general, evidence of quality changes and other effectiveness measures is limited and inconclusive (Domberger 1998; Hodge 1998; Rimmer 1998). However, the issues associated with quality are complex, measures of quality vary significantly, policy-makers make decisions about the relative importance of quality vis-a-vis cost, and quality changes may be attributable to management processes, or other technical, political or legislative variables (Industry Commission 1996; Rimmer 1991; Walsh 1991).

A summary of recent commentaries and/or studies that consider quality and contracting is shown in Appendix 1.

In relation to the studies that are shown in Appendix 1, three themes emerge: the variations and problems in measurement of quality (Domberger 1998; Domberger and Rimmer 1994; Industry Commission 1996; Rimmer 1998); the lack of information about the reasons for perceived changes in quality (Domberger and Rimmer 1994; Hall and Rimmer 1994; Hodge 1996); and the dearth of studies on quality when compared to economic efficiency (Hall and Rimmer 1994; Hodge 1998, 1996). In their review of 10 studies (three of which were Australian), Domberger and Rimmer (1994, p449) noted that many of the studies used incomplete and narrow measures of service quality, and that the review provided no consensus on CTC and quality. They state

".. where quality is affected, it is often unclear whether the contractor was not adhering to specifications or whether a policy decision has been made to use CTC as a mechanism to change quality."

This view is reinforced by Hodge (1996) and Hall and Rimmer (1994, p454) who suggest that "Without a clearer picture of the actual standards achieved and a sound understanding of which contract design and implementation factors influence performance, the debate about the quality-cost trade-off will remain unresolved." The three themes identified from existing studies share considerable overlap with the factors which the Industry Commission (1996) suggests are likely to affect quality. These factors include adequacy of the process, separation of the roles of purchaser and provider, and the effects of competition. Within these, the dominant and pervading theme relates to the issues inherent in measuring and monitoring quality in contracted services.

Measures of quality

It is possible that the impact of outsourcing on quality has produced little and inconsistent data, because the quality of many services is difficult to measure as outcomes are long term and complex, for example, human services and legal services (Hodge 1998; Hunter and Gates 1998; Industry Commission 1995; Prenzler et al. 1997). Further, there are marked inconsistencies in the measurement approach. Rimmer (1994, p83) notes that

"There are no generally accepted measures of quality. Frequently used measures include surveys of users, changes in inputs, the range or number of outputs and performance indicators, such as a systematic assessment of user complaints."

In a similar vein, the Industry Commission Report (1996, 544) states that

"Information has been obtained from one or more of three sources .. the direct response of service consumers (the number of customer complaints as a proxy for service quality), independent observation and assessment (performance indicators), and information from contract managers."

The wide variety of measures used in the studies shown in Appendix 1 substantiates these quotes, and suggests that comparisons may lead to spurious interpretation of data.

Difficulties and deficiencies in quality measurement are, at least in part, related to the difficulties in defining quality and the diverse application of the term. Hall and Rimmer (1994, p456) state that the term quality means a high level of quality in an economic sense (that is, as having valued characteristics) but the term quality to describe fitness of purpose is the one which is most relevant to the development of performance indicators for contracts. The trend to an increasing emphasis on the customer is clear from the economics and operations views of quality (as stated above in relation to value and purpose). The services marketing view is entirely dependent on the consumers' perceptions of quality as a point of comparison to their expectations, and measuring expectations causes problems as they vary between consumers and may change with time (Parasuraman et al 1985). A comprehensive review and comparison of the literature on TQM and service quality is provided by Silvestro (1998) and will not be repeated here. What is evident from the literature is that the services view has not yet been embraced nor integrated in the context of contracting. In terms of quality and contracting, Rimmer (1994) suggests that there are two questions of particular interest. Firstly, whether contracting leads to different expectations about service quality, and secondly, whether quality specifications are adhered to by service providers. The second question returns the discussion to the role of the purchaser in monitoring quality, rather than the consumers' expectations or perceptions of service quality.

Walsh (1991) develops a two-dimensional framework based on the abilities of the producer and the user to assess quality. His essential thesis focuses on the fact that producer and consumer may be looking for different things, different individuals may be looking for different things, and therefore the bases on which quality is judged differ and change. He states that "The best that can be done is that good judgement can be exercised. Effectiveness cannot be measured along any single dimension since it involves value conflicts even for the individual." (1991, p508) Walsh's analysis highlights the subjective nature of quality evaluation in many situations and the need for measurement to be as precise as possible. However, making measurement precise is very difficult because "The concept of quality has two basic elements, focusing respectively on the product itself and the relationship of user and product." (Walsh 1991, p503) This view is not dissimilar to the view from the Services literature that states that quality has two major elements: technical and process (Gronroos 1990). In elaborating, Walsh notes that services are largely produced by individuals for and with other individuals and the identity of the specific individuals involved in the service relationship matters.. can often be highly personal." Domberger et al. (1993) suggest that perceptions of quality are clouded by factors such as the relationship with the client. In general, the consumer view is therefore considered to be the 'subjective' view, imprecise and subject to a variety of personal and emotional influences. This element of subjectivity is the crux of the confusion between service quality and customer satisfaction.

Service quality and customer satisfaction

In the measures reported in Appendix 1, there is little differentiation between service quality and customer satisfaction, with the latter often used as a pseudo measure of quality. However, in the Services literature, it is well acknowledged that these two constructs are related yet different, and measure different things (Shemwell, Shavas and Bilgin 1998; Spreng and Mackoy 1996). In general, it now seems accepted that service quality is one element of (or leading to) satisfaction and involves a cognitive assessment of performance against expectations. In contrast, customer satisfaction involves both cognitive and affective assessment, and includes customers feelings and their perceptions of value (Storbacka, Strandvik and Gronroos 1994; Shemwell, et al. 1998). In her analysis of service quality in the public sector, McGuire (1998) differentiates between the way service quality is defined (specification), monitored (measurement) and evaluated (benchmarks). All of these areas contribute to QM but it is in the measurement area that customers should be able to make a contribution and, in so doing, provide information to guide decision-makers about what is occurring and in further development of policy and standards.

In summary, the difficulties in measuring service quality illustrate the complexity of quality in contracting and, in particular, the need to consider different variables associated with it. Such variables may include outcomes, process management, and relationship and situational factors. In many contracted services, it seems appropriate to pursue measures that seek quality evaluations in relation to consumers' expectations, or to contract specifications, or both. The issue is identifying the management practices that ensure that a certain level of quality is maintained. This shifts our attention to performance monitoring.

PERFORMANCE MONITORING

In one of the few reported studies on outsourcing and performance monitoring, Domberger, Hensher and Wedde (1993) compared competitive tendering policies in the public and private sectors in NSW for catering, cleaning, waste disposal and grounds maintenance services. They found that "while nearly all organisations surveyed collect information that is relevant to performance evaluation, it does not appear to be systematic or rigorous enough to secure contract compliance" (p401). Domberger et al. suggest that the monitoring of performance and the enforcement of contracts, is one of the major issues that has to be addressed by both public and private sectors.

Costs and risks

In the context of contracting, the term, performance monitoring, appears to encapsulate three key areas: ensuring the contractor's work is faithful to the contract terms, identifying the extent of variation in quality and its relationship to cost factors, and determining whether clients and the contracting agency are satisfied with the service (Domberger 1994, Hall and Rimmer 1994, Industry Commission Report 1996). For these three reasons, the importance of performance monitoring is emphasised in the literature. Additionally, attention to performance monitoring is highlighted because the contracting organisation needs to determine the most cost-effective approach to ensure that efficiency and innovation gains from contracting are not eroded (Hodge 1998; Rimmer 1998). Rimmer also notes that if there is a high risk or cost associated with contract failure, it is more appropriate for the contracting agency to introduce more costly monitoring techniques but that there is limited evidence on costs associated with contract management (1998, p77).

The extent to which it is important to monitor performance is not only related to the risks associated with contract failure but also the extent to which the purchasing organisation is confident that the contractor is capable of delivering to the required quality standards. The Industry Commission (1996) suggests that there are two elements of risk associated with CTC, firstly, whether contractors have the capacity to perform to agreed standards and, secondly, whether those standards are being attained. Consequently they state that the two main approaches to minimising risk are the adoption of quality assurance (QA) strategies, and the development of a performance monitoring regime. Other authors suggest that QA requirements are linked to risk assessments, and that when high levels of risk exist, suppliers should be required to have third party certification (Kean 1995, cited in Industry Commission Report 1996; Rimmer 1998). The Industry Report also suggests that the way that QA and performance monitoring are used " ..is highly interdependent in that the more comprehensive the QA arrangements, the less will be the need for detailed performance monitoring" (1996, p351). This assertion can be challenged, based on whether more emphasis is placed on outcomes or processes (that is, the dominating perspective on quality), and whether the complex processes and long term outcomes associated with many services are adequately ensured by QA management systems and/or accreditation. There is apparent confusion between strategy and operations and, in both cases, performance monitoring is critical to inform decision-makers.

Approaches to performance monitoring

The Industry Commission Report (1996, p361) suggests four approaches to performance monitoring of outsourced services: performance indicators, to specify and measure performance, and to define continuous improvements that are required; inspections; contractor reports, prepared by the contractor; and client complaints and surveys. The latter three approaches are techniques which can be used to monitor performance. In contrast, performance indicators is a term that requires definition and exploration.

Hall and Rimmer (1994, p456) define performance indicators as "quantitative and qualitative statistical information which is used to assist in determining how successful an organisation is in achieving its objectives." They suggest that three main aspects of performance can be measured by performance indicators: workload, efficiency and effectiveness measures. Workload indicators are output orientated and measure the amount of work done, for example, the number of patients treated. Efficiency indicators are economic and productivity measures, generally measuring output/input ratios, and equipment and personnel utilisation rates. Thus, workload and efficiency measures are quantitative checks, relatively simple to define, and requiring data that is generally easy to collect. Additionally, once a contract is agreed, workload and efficiency indicators are generally only relevant for the contractor (except where there is in-house delivery) (Hall and Rimmer 1994).

Effectiveness indicators are designed to measure the outcome or impact of a service, that is, the extent to which the objectives of the organisation have been achieved, and they include the quality of

services, the levels of customer satisfaction, and overall outcomes such as profitability or accountability for equity. Effectiveness indicators are more complex, more difficult to define, and generally require information that is not readily available. Hall and Rimmer (1994, p456-7) suggest that developing effectiveness indicators can be a trial and error exercise, and that identifying measures which reflect the key aspects of performance may be difficult. These points are particularly salient when future needs of individual clients are difficult to predict, for example, aged care, disability services and emergency services (Rimmer 1998, p77). In general, performance measurement is difficult in services due to their intangible and often ill-defined objectives, long term outcomes, and greater emphasis on the employee-customer interface (Domberger and Hall 1991; Parasuraman, Zeithaml and Berry 1985). Despite the difficulties of measurement in services, organisations need to monitor effectiveness indicators as they represent the required outcome standards, rather than easily measurable outputs, and therefore indicate the extent to which an organisation is achieving its overall objectives (Hall and Rimmer 1994, p457). Outcome indicators reflect a more strategic approach rather than the operations focus of outputs.

Another distinction often made with respect to performance indicators is that of objective and subjective indicators. Objective indicators are generally associated with the actual level of service achieved, that is, conformance to specifications (and the performance of specific variables over time), while authors seem to agree that subjective measures focus on the consumer's perceptions of quality and may include customer surveys, 'blind' tests, complaint registers, consultative committees and evaluation by a third party (Domberger and Hall 1991; Sanderson 1992). Hall and Rimmer (1994, p457) state that "Comparison of objective and subjective indicators highlights where actual performance and perceptions do not match." This statement can be challenged: do objective and subjective indicators measure the same things, or are they more closely aligned to efficiency and effectiveness measures? If so, the results may be in conflict because efficiency outputs and effectiveness outcomes are not aligned. It is more accurate to assume that the comparison of objective and subjective indicators highlights where actual performance and expectations of performance do not match.

Many organisations, especially in the public sector, appear to be gathering customer feedback via customer satisfaction surveys. However, a significant number of issues and problems in relation to customer satisfaction surveys have been clearly elucidated in Services Marketing literature over the past decade. Such issues include the use of broad indicators (satisfied/dissatisfied) rather than specific aspects of satisfaction, the fact that such surveys often do not seek information on expectations, and the results are almost always skewed positively (Danaher and Hadrell 1996; Stauss and Neuhaus 1997). In addition, a wide variety of indicators, and pseudo indicators, are assumed to mean satisfaction and /or quality. Quality and satisfaction can be separated to some extent, even though they are related. Further, consumers can make objective, quantitative quality assessments and do not have to be restricted to measures of how they feel or whether, and how often, they complain.

A final issue that leads to debate about performance monitoring regimes concerns the use of in-house versus external providers of services. Domberger and Rimmer (1994, p443) cite Walsh (1991) and Prager (1994) who "argue that the monitoring and enforcement of contractors is more intensive than that required of in-house provision." Domberger (1994, p95) challenges this assertion stating that its theoretical or factual basis is unclear. Further, Domberger and Rimmer (1994, p443) indicate that the argument is puzzling because it

"...implies that the likelihood of opportunistic behaviour by contractors is correspondingly greater [than in-house providers], perhaps because contractors are motivated by profits and therefore have an incentive to 'cheat'. The result is an expectation that contractors will attempt to shade quality unless deterrence is made through intensive and costly monitoring activity."

Consequently, whether in-house providers require less monitoring is a question that is still being debated. Having discussed the broad issues with regard to performance monitoring and contracting, previous studies in this area are now considered.

Previous studies

In the two studies that specifically report performance monitoring approaches, little use appears to be made of performance indicators or independent assessment, with reliance on compliance checklists and user complaints. In particular, in Australia, Domberger et al. (1993) found that public sector organisations rely predominantly on certification (verification by the contractor that a service is completed) whereas private sector organisations favour inspections but, in the organisations that they sampled, little use was made of third parties in such an approach. In a study of U.K. local authorities, Walsh (1991) explored changes in approaches to performance monitoring before and after CTC, and he found that there was a lack of use of inspectors prior to competition, and an increase in the use of user panels, public surveys and consultative committees after CTC. However, the most common methods of monitoring contracts: user complaints, and public complaints, did not show significant changes. Both studies noted the significance of the relationship with the client, but for different reasons. Walsh states that "The purpose of monitoring was not seen simply as to control the contractor, but more generally to establish co-operative relationships" (1991, p50). In contrast, Domberger et al. (1993) suggest that perceptions of quality are clouded by the relationships and they call for research to explore performance evaluation of contracts. Unfortunately, despite the appeal for activity, there is little evidence of further reported research in specific management practices used for performance monitoring of contracts.

In summary, a number of authors note the importance of, and possible extra costs associated with, performance monitoring but the different approaches to monitoring, and their possible effects do not appear to be explored in the literature. Rimmer (1994, p83) identifies two key areas for further research, firstly how to measure performance, and secondly, how to ensure that the costs of performance measurement do not exceed the benefits likely to result from their use. The practical implication that emerges from these areas is to explore the costs and benefits of different approaches to performance monitoring to determine which approaches, in various contexts, are most likely to ensure contract compliance and appropriate quality standards. Finally, the role and importance of customer satisfaction is a further issue that emerges. That is, the key question seeks to identify the management practices that will ensure that quality specifications are adhered to, in a cost-efficient and consumer-effective manner.

MANAGING QUALITY IN CONTRACTED SERVICES

Integrating the disciplines

The discussion in this paper has highlighted a number of issues that are inherent in measuring and monitoring quality in contracted services. These include:

- the separation of purchaser and provider, and consequent introduction of an intermediary;
- the existence of both business-to-business and business-to-consumer relationships and lines of accountability;
- the need for managers to incorporate a variety of perspectives (strategic, operations and services marketing) in their thinking;
- the difficulties in defining quality, and the diverse variables associated with it;
- the lack of accepted measures of quality, and the confused and inconsistent measures often adopted;
- the scope and complexity of outsourcing and contracting, and the need for balance between cost and quality; and

- the need for organisations to ensure that quality measurement and assurance activities do not erode benefits obtained from contracting out.

As indicated, the analysis has highlighted the need to adopt a multi-disciplinary perspective in which service delivery by an intermediary is at the core. This is depicted in Figure 2.

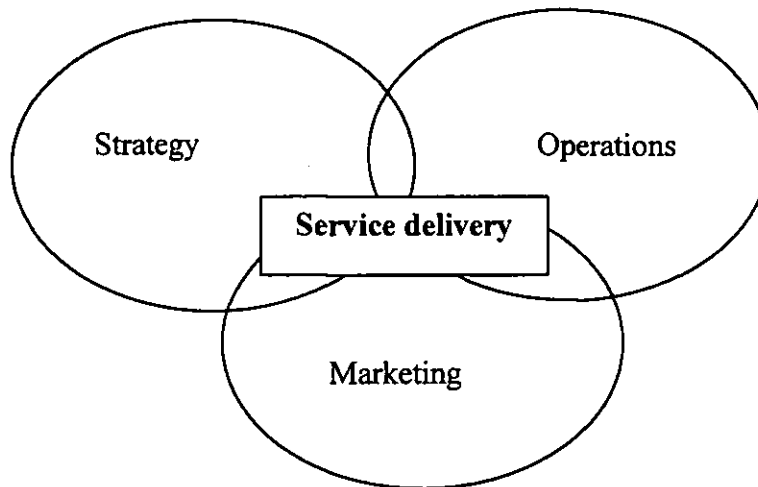
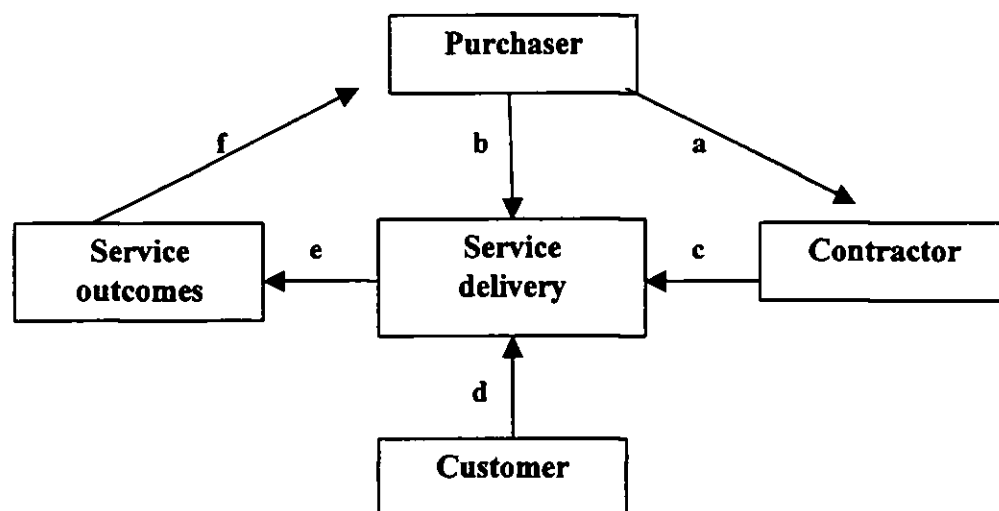


Figure 2 A multi-disciplinary perspective on quality measurement in contracting

Using Figure 2 as a basis, and drawing on the scope of the literature reviewed, it is possible to integrate the concepts into a model that facilitates analysis of current practice and development of improvement strategies in relation to quality measurement in contracting. The model is shown in Figure 3.



Pathways

- a contract specifications
- b performance monitoring by the purchaser
- c contractor efficiency
- d service evaluation by the customer
- e alignment of delivery and outcomes
- f accountability for results

Figure 3 An integrated approach to management of contracted services

Analysis of current practice

Figures 2 and 3 place service delivery as the focal point for quality evaluation and management, even though funding, and responsibility may be with another organisation. The model in Figure 3 emphasises the separation of roles in contracting, and the differences between service delivery and service outcomes. Each pathway has different implications in terms of management practices. These are considered in turn.

a Contract specifications: the fundamental relationship between the purchaser and provider is determined by the contract which usually requires precise and measurable specifications. Some specifications relate to inputs, others to outputs, and there may also be an emphasis on outcomes. Guidelines are available to purchasing organisations to ensure adequacy of contracts. However, an interesting question is whether the investment in the contract or its outcomes warrants further investment in the form of quality monitoring (such as inspections, audits or customer surveys) or whether contractor checklists and certification that the work is completed are adequate.

b Performance monitoring by the purchaser: practice suggests that organisations tend to rely on a 'conformance to specifications' approach, using quantitative indicators wherever possible, and techniques such as: inspections by the purchasing organisation, checklists and reports by the contractor, and customer complaints and surveys (see d below). There is little evidence of inspection by external bodies. Questions that might improve the effectiveness of the processes include not only the nature of the monitoring but also its frequency, and data collection to determine whether quality performance and quality expectations change over time.

c Contractor efficiency: this area is the domain and concern of the contractor, and will vary according to specialization, but may include QM or QA techniques as negotiated with the purchaser. Some organisations may have pre-qualification requirements of the contractor, such as QA mechanisms, management processes, or specific quality or training certification. Organisations need to assess their own risk levels and decide to what extent they wish to pursue requirements in this area.

d Service evaluation by the customer: this is the area with most apparent scope for improvement. To commence, organisations should determine whether they are using imprecise customer satisfaction surveys as ad hoc, 'pseudo' measures of quality. Customer satisfaction measures should incorporate both cognitive and affective components. Cognitive assessments of quality (which can be based on objective or subjective data) compare performance to expectations, while affective assessments include other variables which are known to contribute to satisfaction, such as feelings, and perceptions of value. Secondly, organisations may like to evaluate themselves for the user-friendliness of their irregular feedback mechanisms, if these exist. As well as information on current service delivery, data collected systematically from customers provides important indicators of expectations (and changes in their levels), overall service outcomes (as well as outputs), changing consumer needs, and a focus for improvement. Finally, in a situation of contracting out, it is of interest to determine who customers feel is responsible for service delivery (contractor or purchaser) and to whom poor quality is attributed.

e Alignment of service delivery with service outcomes: while there is discussion of different outcomes, and different measures in the literature, little guidance is provided in terms of evaluating the alignment of delivery and overall outcomes. Unless this link is established and pursued, continuous improvement is unlikely to be achieved. If the rationale for contracting out relates to efficiency, generated by competitive pressures, interesting questions include whether competition is 'real', whether any alternative vendors exist, and when structural, or other bonds, to particular providers dominate. Further, if efficiency considerations (related to cost) drive the agenda, when, if ever, is the balance between efficiency and effectiveness pursued?

f Accountability for results: this pathway represents the results achieved against the overall objectives set. It may include customer loyalty measures, profitability, and public sector program evaluation. It represents the outcome measures that result from effective QM in other processes. If there is a significant gap in this area, the framework in Figure 3 should provide one means of exploring the deficiency, and developing an improvement strategy.

Future research

Despite the identification of issues and acknowledgement of their complexity, the literature provides little guidance about successful approaches for measuring and monitoring quality in contracted services, and there is much scope for future research. Some of these areas are summarised below.

A key area for research is the development and refinement of quality measurement instruments for different services. Related to this need for accepted measurement tools, is a need for research that analyses quality monitoring practices to determine the most cost-effective means in specific contracting situations. Of particular interest are the situations in which information supplied by contractors may be inadequate to assure quality, and other techniques may be necessary.

As the current literature appears to emphasise business-to-business relationships, academics and practitioners would benefit from research that explores the consumer's needs and perspective on service delivery, as well as the effects of contracting on relationships with consumers. In particular, the links between what is measured and the outcomes that are valued by customers would be useful information.

As the emphasis in reported studies is on cross-sectional data collection, studies that adopt a longitudinal approach would contribute to the literature in that they could explore how expectations and perceptions of quality change over time from the viewpoint of both purchasers and consumers.

Finally, research is required to establish the most appropriate quality measurement approaches for different contracting contexts, such as when services are delivered back to a purchaser, or when they are delivered on behalf of the purchaser to a consumer. Other differences may exist between public and private sector purchasers, and in-house and external suppliers.

CONCLUSION

This paper briefly outlines the integration of ideas from previous research, in literature drawn from economics, operations, service management and public administration, to develop a model for quality measurement in contracting. The model highlights the different elements and perspectives on quality, and facilitates analysis of practice and development of strategies for continuous improvement. Key points include the implications of separating purchaser and provider, in that traditional operations approaches such as QA and certification apply only to contractor efficiency, and do not assure service delivery that is consistent with the consumer's needs or the purchaser's required outcomes. The model gives an overview of the quality measurement process and it is expected that academics and practitioners will use it as a basis for identifying future research activities and practical improvement strategies respectively. Particular issues question current approaches to the monitoring of contracts, the role of customer satisfaction surveys, and the most effective means of achieving balance between cost and quality. Finally, the need for basic research to establish appropriate approaches to quality measurement and monitoring in contracted services is highlighted: that is, under what circumstances do each of inspections by the purchasing organisation, reports by contractors, client feedback, or pre-qualification requirements represent the best management practice?

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Appendix 1 Recent commentaries and studies that consider quality and contracting

Author	Country / sector	Focus of study	Comments
Hodge (1998)	International review of evidence (128 studies reduced to 28 considered rigorous)	Commentary on a meta-analysis of available evidence using an economic, social, democratic, political and legal performance framework	Notes that different services yield different reductions in cost, and quality changes are not significantly different to zero. Also comments on lack of studies on quality compared to economic performance and that monitoring costs are rarely measured.
Hodge (1996)	As Hodge (1998)	Summary with respect to each framework	Full review of the evidence on which Hodge (1998) is based.
Rimmer (1998)	Australia	Review of and commentary on CT and outsourcing	Notes that costs decrease but that more research is needed, and quality does not usually decrease (though there is confusion re measurement). Introduces issues re length of contracts and emphasises management of the process.
Domberger (1998)	International issues, cases and studies	Comprehensive analysis designed to facilitate strategic thinking and effective decision-making in contracting	Cites the Domberger, Hall and Li (1995) study in which cost and quality were considered together. Found that competition reduced prices significantly and raised quality slightly.
Industry Commission Report (1996)	Six international studies (1977 - 1995) and seven Australian studies (1988 - 1995) in government services	Estimates of service quality changes in various services	Evidence varies from significant deterioration to substantial improvement. Diverse range of measures, ranging from number of complaints, to effectiveness of outcomes, and specific questions about quality.
Prenzler et al. (1997)	Pilot study on legal aid (Queensland District Court)	Comparisons of quality and cost when competitive contracting is applied to legal assignments	Evaluation included: case audits using a quality checklist, client satisfaction survey, and independent practitioner assessments. Recommends a 'preferred supplier' model with accredited firms.
Domberger, Hall and Li (1995)	Cleaning services (61) in the public sector (Sydney)	Estimates of changes in the quality of cleaning sought	In special schools, 35% improvement. In offices, hospitals and other schools, not statistically different from zero. (Included in above IC Report)
Domberger and Rimmer (1994)	Public sector, 7 Australian and 3 international studies	Survey of 'recent' studies to explore extent of implementation of CTC and the nature of outcomes	Evidence of substantial cost savings but evidence on quality inconclusive due to lack of data and more research needed.
Hall and Rimmer (1994)	Performance monitoring in the public sector	Considers approaches to performance monitoring, especially effectiveness	Includes example from Walsh and Davis (1993) in the U.K. in which service standards were adhered to in 90% of cases. Notes the need for co-operative relationships in contracting.
Domberger, Hensher and Wedde (1993)	Compares public and private sector policies re CT in Australia	Catering, cleaning, waste disposal and grounds maintenance.	Suggests that data collected is not rigorous enough to ensure contract complicity; and that the high incidence of repeat contractor selection indicates that quality does not change. Notes that private sector have much shorter contracts than public.

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