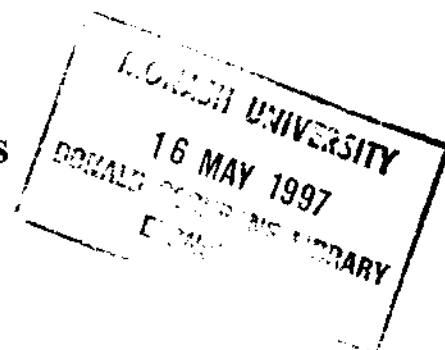



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**THE ROAD TO PRIVATISATION: TQM AND  
BUSINESS PLANNING**

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**ABSTRACT**

This paper traces the change efforts and road to privatisation of a business unit of a large Australian government department which integrated quality principles with strategic business planning.

# THE ROAD TO PRIVATISATION: TQM AND BUSINESS PLANNING

## INTRODUCTION

### Background

Public sector reform efforts have tried to achieve an output orientation in which the needs of the users are of paramount concern; improved performance of staff; the establishment of a better balance between service, quality and cost (de Coninck-Smith, 1991); and, almost universally, market mechanisms have been introduced to provide user choice and improve customer satisfaction (Mottram, 1995; Osborne and Gaebler, 1992).

In Australia, over recent years, the type of structural reform undertaken ranges from commercialisation at one end of the spectrum to privatisation at the other end. Commercialisation is characterised by a policy to "introduce fees for services based on full costs, devolution of budgetary appropriations for service provision from service providers to client agencies, and the opening of markets for common services to private sector competition" (Mellors, 1993, p.329). Privatisation varies mostly only insofar as ownership structure is concerned; for example from the outright sale of assets to contracting for services (Mills and Ghosh, 1994).

In an endeavour to be more efficient, more responsive and more attuned to the needs of the society (either to try to avoid privatisation or, alternatively, to become more attractive prospects for potential purchasers), the road to commercialisation and privatisation has seen a number of government departments turn to both business planning and TQM (total quality management).

### TQM and Strategic Planning

Numerous writers have pointed out the barriers to effective strategic planning and TQM implementation. Some argue that the major problem is not in creating the strategic plan but in the plan having any real impact in the organisation (Eden, 1993). Communication, a key element in both business planning (Albrecht, 1994) and TQM (Exterbille, 1996), seems to be an issue (Chapman, Murray and Mellor, 1993). Commitment and leadership from the top of the organisation (Dean and Evans, 1994; Fuchs, 1993; Huntsman, 1994; McDonald, 1996; Persico, 1991; Powell, 1995), and an emphasis on tangible results; an insistence on performance measurement and an integrated program (Harding, 1995, p.101) have been seen as essential.

Morgan and Murgatroyd (1994) have specifically focussed on the barriers to implementation of quality programs in the public sector. These include: the belief (supported by evidence) that public sector managers are more resistant to change due to an overcommitment to regulation and precedent; the need for change not being seen as obvious; and commercially oriented changes being seen to be at odds with the ideals of the public service. The concerns of the public sector unions about potential job losses resulting from efficiencies, the effect that any improvement in management-staff relationships will have on their effectiveness (and survival), and equity issues in respect to pay and responsibility levels should not be overlooked in this process, either. Thus cultural and attitudinal change and sensitive management of the stakeholders need to accompany any change program.

## **CASE STUDY : ASSET SERVICES**

Asset Services, a business unit of the Australian Department of Administrative Services, is a very large maintenance contractor operating in 75 locations across the nation, with over 2,000 organisations as customers and revenue of \$230 million in 1995-96. During the time period covered by the case study, 1989 to 1996, staff numbers were reduced by over 50 per cent such that it now has approximately 2000 staff (of which about 1450 are tradespeople). During this period, Asset Services was gradually commercialised and, recently, the government has announced that it is to be privatised in the middle of 1997.

### **Methodology**

The data for this study was collected via action research; examination of reports; interviews and with both Ian Wootton, General Manager, Asset Services, and Noel Tanzer, head of the Department of Administrative Services (during the first few years of the change process); and through the involvement of the second author in a long term consultancy project with Asset Services.

### **Context for Strategic Planning and TQM Initiatives**

The government initiated reform which began in earnest in 1989 was meant to improve efficiency, achieve cost recovery where comparable commercial services were provided, and result in public sector organisations providing "value for money" services to their customers. Cultural change that imbued messages about customers and choice, real cost and prices, and people and performance was expected in the transformation.

Although its functions were already being performed in the Department of Administrative Services (DAS), Asset Services (Assets) was established as a separate business unit within DAS in February 1990. The DAS vision of change formulated by Noel Tanzer was the philosophical underpinning of Assets' transformation. Noel Tanzer's vision not only emphasised the customer as the driving force for business success, but also the need for leadership development, cutting edge financial management systems, staff involvement and development, and the need for a well thought out change process.

### **The early years and the DAS influence**

The period 1989-91 was one of significant DAS influence, and one in which Asset Services introduced accrual accounting and developed key financial management systems, created an awareness of commercial business principles throughout the organisation, and began to make the customer the driving force for organisational alignment.

This period also heralded a major change in which the Government decided that the user departments, rather than Asset Services, should receive the government appropriation - although they were still required to buy services from Assets. Being able to choose other suppliers was to come later! Thus, the early change efforts by Asset Services were driven by this impending transfer of funds to their customers in mid-1991.

The ongoing improvement of the financial management process was followed by basic customer and market research (that helped establish the market place boundaries and a baseline for customer measurement). Simultaneous efforts were begun to define a business strategy and educate Assets' staff in customer thinking and commercial principles. The conceptual frameworks for the change process at this stage were the Customer Relationship (CR) Model, an adaptation of the Service Triangle originally described by Albrecht and Zemke (1985), and the Total Quality Service Model

(described in Cummane and Bennington, 1996), although the change approach was not well integrated.

In late 1991 Noel Tanzer decided to accelerate the change process by introducing the "guru" element (Karl Albrecht) to raise the profile of the TQM change effort among all of DAS staff (including Assets' staff). Tanzer and Albrecht visited all parts of Australia, speaking to large numbers of staff and customers about the quality service revolution that was beginning in DAS and that they were going to change to provide better service.

### **The middle years and the wake-up call**

In July 1992, Asset Services developed a complete strategy framework (adapted from Albrecht, 1994), tied to customers and to the market place, and so began the middle years (until mid 1994) of its' change effort. This was the first time they had thought of themselves as a business and had planned as a business.

Their first substantial business plan, in the 1992/93 financial year, embraced the customer as the driving force for the business' direction and clearly identified Asset Services as being in the maintenance services/solution business. Significantly, it also recognised the need to move out of the construction business even though it accounted for *seventy percent* of its revenue.

The business plan resulted in a set of initiatives that ranged from quality assurance and the development of maintenance management systems, to workplace change and business leadership development. Unfortunately, providing a logical and well thought through strategy by the senior management did not result in the integrated customer driven change effort that was badly needed. Staff were doing a "good technical job" but did not perceive themselves as having customers. Various groups owned the initiatives but never the organisation as a whole.

The continued lack of integration of the many positive steps Assets had embarked upon was demonstrated by the early financial performance after customers were untied and given choice in July 1993 (indicated by a \$12 million loss in 1993-94 after an \$8 million profit in 1992-93).

The mediocre performance was another wake-up call in the change process and another signal to Ian Woonton that the staff were not being connected to the organisation's strategy. For example, the early operating unit business plans in the 1992/93 - 93/94 period of the change process were developed to meet corporate expectations and in isolation of those working in the operating units. This circumstance helped Assets realise that it needed a change process/structure across the business to help tie all the elements of the customer relationship model together.

### **The new dawn - and time to design the change process**

Asset Services formally agreed on a change methodology after a corporate management conference in November 1993. This conference refined the organisation's strategy framework with particular emphasis being placed on the statement of business strategy. Assets specifically identified in this statement how it would access its customers, how it would create value for its customers, how it would operate to grow and be profitable.

There was a concern at this stage that perhaps the wrong people were in some of the key jobs, and that to provide training to these people and put them back into the same environment would be ineffective (keeping in mind that removing staff was not an option at this point in time), so Ian Woonton proposed a new role in the company that he labelled the Business Improvement Leader (BIL). The emphasis on the BIL role was facilitating change in the operating unit, spending 80% of

their time in the BIL role working in partnership with the Operating Unit Manager. The BIL was trained to be proactive and to focus on developing strong relationships with key people in the business unit. It was agreed that a person at any level in the organisation could assume this role, provided they met certain selection criteria. The result of this decision was a group of BILs from all levels in the business with at least one in every operating unit.

The BIL process was established in an environment of initial resistance. Notably, resistance mostly came from operational unit managers who thought their power might be usurped. Resistance did not come from the unions. In time, the operational unit managers came to see that the BIL role only had the power provided it by the various levels of management in the operational units and that such a role could benefit the operational unit.

### ***The BIL Process***

The first step in the BIL process was to workshop the idea across the business. Ian Woonton decided that all key decision makers should have the right and responsibility to argue the pros and cons of the BIL process and come up with a better idea. This step, although delaying the introduction of the BIL role for a few months, not only identified ways to improve the process but helped win enough support to ensure the process was a success.

The next step in the BIL process was selection of the BILs. The selection process involved an interview and testing process that let everyone know that being a BIL meant meeting very high standards. A training process was established that involved all the BILs from across Australia coming together three times a year for a total of eight days. This training was supplemented by the support from an internal team (The Service Development Team) within Asset Services reporting directly to the Assistant General Manager for Operations. This team was developed and supported by external consultants. The early education process was built around the need to establish participatory business planning as part of the culture in all operation units. Early assessment of the BILs' impact involved review of the plans and the ability of operational units to achieve or exceed budget.

The BILs became key in all phases of business planning, facilitating involvement of the whole unit in the process. Some were more successful than others and where the BILs were evaluated as performing their role at or above expectations, operating units performed at higher levels than in instances where this was not the case. The biggest impact on BIL performance seemed to rest in the strength of the relationship developed with the most senior operational unit manager. This influence upon success became so apparent that resistant operational unit managers were eventually changed!

As the BIL process has gathered momentum the quality of business planning at all levels in the business has improved dramatically. In addition, business planning has been simplified. A key aspect of simplification has been the recognition through the planning process that Assets is "one business" across its many sites. This has meant that the National Framework, down to and including the Key Result Areas, has been assumed by every operational unit. In the early days of the BIL process, operational units all thought they were so different that all the components of the strategy framework needed to be different for their specific site and circumstances.

### ***Customer and Market Research***

In conjunction with the introduction of the BIL process Assets placed a greater emphasis on understanding its customers and measuring performance. An ongoing measuring process has been upgraded and refined each year, based on new insight developed through customer research within

the various regions and with various customer segments. Assets has employed value focusing which involves both customers and staff and the use of technology (see Bennington and Cummane, 1996) to determine if customers' expectations have changed and how expectations are likely to change. This constant effort to stay abreast of what is important to customers is used to update measurement instruments and for strategic planning.

It is notable that at one time, in 1993, Assets' performance was worse than competitors on most criteria, whereas, today, its performance is better on most criteria.

### ***Sales and Marketing***

Developing an effective sales and marketing system has been a primary concern since the move to commercialisation. Efforts were made in a number of areas in the early and middle years of the change effort, however, the lack of expert direction and the resistance of a culture that had always seen commercialism as foreign ensured two major early efforts failed to make a significant impact. The improvement in business planning previously described, advice from consultants, feedback from customers and potential customers, and the knowledge that Assets' significant improvement in customer satisfaction was not helping maintain and increase sales, created an urgency in late 1995.

After a sales and marketing audit, Assets set in train a number of organisation-wide steps that have resulted in a marketing system that is beginning to drive sales increases. The importance of sales and marketing has been reflected in the organisational structure, for example, the National Sales and Marketing Manager became a member of the National Management Team; professional salespersons, great emphasis on account management, and customer teams were introduced; and, all titles in operational units and some at national office had "service" or "customer" included in them. Initially, some senior members of the National Management Team objected to the changes in title often on the basis that customers and staff would not accept the changes. Research suggested this would not be the case and hindsight has shown the change to have been accepted by both customers and staff.

### ***The Graphic Business Plan***

To further help connect everyone to the business direction, Assets developed a very innovative pictorial, or graphic, plan "for business success". The plan shows the evolution of Asset Services from having no separate identity in an environment of political uncertainty to having an identity and facing commercialisation and deregulation. It also shows the core values needed to face the competition, what customers value, key result areas and the objective to become a viable organisation with long term customer contracts; and some of the processes used to achieve the goals (eg service blueprints, BILs, marketing etc). It is simple enough to be used by people at all levels and is available electronically. The accompanying explanatory notes to the plan acknowledge the changes in Assets and the fact that the livelihood of a percentage of the workforce is being affected. It points out that the needs of government departments (customers) are changing and that staff must refocus in order for Assets to remain a viable entity.

### ***Current Status***

The government has announced that Assets will be sold into the private sector by mid 1997 but the resultant process and structure is yet to be determined. A great deal of change has occurred, although some things are yet to be completed (eg a plan to align information systems with customers has taken longer than expected). However, by the end of 1997, it is expected that most of the key change processes will be complete.

Although Assets has taken its customer research process to high levels, it is only just beginning to do in-depth analysis of market place potential with a view to expanding its present Commonwealth, State and Local Government markets, and entering the private markets. Assets has gradually been winning private sector work in recent years and winning back public sector work lost at the introduction of full competition. It is important to note that full competition, begun on 1 July 1993, meant that all Assets' public sector work was open to private sector firms; however, the government of the day and private sector firms through their lobbying made it very difficult for Assets to pursue new markets. The decision in the most recent (government) budget has created the potential for Assets to pursue an additional *five billion dollar* private sector maintenance market.

## CONCLUDING COMMENTS

Just as it has not been possible to include all of the TQM and business planning activities of Assets, necessarily, the analysis will also be restricted to outlining the key features of the case. The first is that the requirement for establishing the "felt need" for change, or the type of impact required, was perhaps one of the most difficult for a workforce that did not perceive the existence of customers and the importance of customer satisfaction. This took quite a long time (in private sector terms). Also, the problems of integrating the quality and planning activities and connecting the workforce in an effective way to these was difficult but handled very creatively. The factors which probably make this business unit a success include:

- the "customer focus" vision and leadership shown by the CEO, and possibly his organisational development background which made him different from many public sector CEO's
- the "customer focus", leadership, determination to succeed, and willingness to take risks on the part of the General Manager
- the concerted effort made to link every staff member to the customer through the use of various techniques
- the major re-definition of the type of business Assets needed to be in - from construction to maintenance
- the development of clear and measurable targets
- the union cooperation and support
- the significant reduction of more than 50% of staff during the change period while productivity rose by over 25%
- the considerable emphasis and resources spent on training such that a number of staff are targets for the private sector
- the recognition of the importance of good quality customer data in driving the change process. (In the period 1992-93 to 1993-94 many Assets managers believed they were changing adequately; however, customer data showed them that this was not the case); and, overall,
- the integration of TQM and business planning approaches.

Other interesting, although not closely connected, points worthy of note include:

- the incredible complexity of the environment indicated by government as a major stakeholder, as well as, initially, 16 unions (later reduced to 9), and 2000 customer organisations as stakeholders
- the limited benefit obtained initially from quality assurance accreditation years until it was seen as a tool to improve the business
- the need to keep constancy of leadership at the top in a difficult change process
- the difficulty of bringing about major change in the public sector compared to the private sector, but this case shows that it is worthwhile; and
- the fact that performance improvements have been evidenced well prior to privatisation.

Asset Services has gone through considerable change since 1989, recreating itself from a lumbering public service organisation with no competition, to a flexible organisation with competition and fewer public service trappings, while still generating \$2 billion in revenue and \$12 million in losses. The relatively limited losses have occurred in the context of a necessary 180° change in direction that required a massive staff restructure and nearly 50% reduction in sales while exiting an unprofitable and cyclical business.

Overall, Asset Services can be regarded as a success story in public sector management and in integrating TQM with strategic planning.

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