A New Theory for Public Service Management? Toward a (Public) Service-Dominant Approach

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Abstract

This article argues that current public management theory is not fit for purpose—if it ever has been. It argues that it contains two fatal flaws—it focuses on intraorganizational processes at a time when the reality of public services delivery is interorganizational, and it draws upon management theory derived from the experience of the manufacturing sector and which ignores the reality of public services as "services." The article subsequently argues for a "public service dominant" approach. This not only more accurately reflects the reality of contemporary public management but also draws upon a body of substantive service-dominant theory that is more relevant to public management than the previous manufacturing focus. We argue that this approach makes an innovative contribution to public management theory in the era of the New Public Governance. The article concludes by exploring the implications of this approach in four domains of public management and by setting a research agenda for a public-service dominant theory for the future.

In previous work, two lines of argument have been presented by the lead author of this article (Osborne, 2006, 2009, 2010). The first was that the increasingly fragmented and interorganizational context of public services delivery (Haveri, 2006) necessitates asking new questions about public services delivery. It is now no longer possible to continue with a focus solely either upon administrative processes or upon intraorganizational management—the central preoccupations of public administration and (new) public management, respectively. Rather these foci must be integrated with a broader paradigm that emphasizes both the governance of interorganizational (and cross-sectoral[1]) relationships and the efficacy of public service delivery *systems* rather than discrete public service organizations. This broader framework has subsequently been termed *The*

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New Public Governance (Osborne, 2010). This framework does not replace the previous foci of course, but rather embeds them in a new context. A similar argument has been made by Thomas (2012).

The second argument presented was that much contemporary public management theory has been derived conceptually from prior "generic" management research conducted in the manufacturing rather than the services sector. This has generated a "fatal flaw" in public management theory that has viewed public services as manufacturing rather than as service processes—and that are created by professional design and input and then delivered to the user. Our central argument is that the business of government is, by and large, not about delivering premanufactured products. Nor are most relationships between public service users and public service organizations characterized by a transactional or discrete nature, as they are for such products (McLaughlin, Osborne, & Chew, 2009). On the contrary, the majority of "public goods" (whether provided by government, the nonprofit and third sector or the private sector) are in fact not "public products" but rather "public services." As will be argued below, social work, health care, education, economic and business support services, community development and regeneration, for example, are all services rather than concrete products, in that they are intangible, process driven and based upon a promise of what is to be delivered. Public services can of course include concrete elements (health care or communications technology, for example). But these are not "public goods" in their own right—rather they are required to support and enable the delivery of intangible and process driven public services. We argue that a public management theory "fit for purpose"[2] must therefore understand public services as services, with the distinctive service-dominant logic and managerial challenges that this implies, and must hence reject the fatal flaw contained within current, product-dominant public management theory.

This product-dominant fatal flaw, we argue, has persisted[3] despite the growth of a substantive body of services management and service-dominant theory that challenges many of its fundamental tenets for the management of services (inter alia, Gronroos, 2000; Lusch & Vargo 2006; Normann, 1991). It is this latter body of services and service-dominant theory, it is argued here, that should inform our theoretical and conceptual understanding and analysis of the management and delivery of public services.

This article will advance this argument in extended form here. First, it will outline briefly the development of the prevailing paradigm of public management and develop our critique of its fatal flaw (in its product-dominant bias) and its increasing irrelevance to the contemporary world of public policy and public services delivery. Second, it will explore the potential of service-dominant logic to generate new theoretical insights and frameworks for public management that are more "fit for purpose" for contemporary public services delivery. Third, it will then explore four themes of public management practice and illustrate how a service-dominant approach both transforms our understanding of public management tasks and offers new ways forward for their resolution. These themes are strategic orientation, marketing, coproduction, and operations management. From this discussion, we derive four propositions to form the basis of a public-service dominant theory of public services delivery and management. The final part of the article will then draw together the overall contribution, and its important limitations, of this new approach to our understanding of public management and its implications for appreciating and addressing the managerial challenges for public services that the New Public Governance poses. It will close by posing a research agenda to test out this framework and by highlighting the key challenges that the framework must respond to if it is to become a robust and sustainable contribution to the field of public management in the 21st century. Not least in these challenges is how it recasts the citizen as the coproducer of public services (Alford, 2009), rather than as solely the client of public service agencies. This links into a long-standing debate in the United States, and elsewhere, about the relationship between the citizen and state as mediated through public services delivery (inter alia, Cooper & Gulick 1984; Osborne & Gaebler, 1993)

The Theoretical Basis of Public Management: A Flawed Approach?

Contemporary public management theory is broadly encapsulated within the *New Public Management* (NPM) paradigm. The genesis of this body of theory has been well-analyzed elsewhere (for example, McLaughlin et al., 2009; Thomas, 2012). It arose as a response to three lines of critique of the traditional public administration premise of the "politics—administration dichotomy" (Svara, 2008). The first of these queried the enactment of this dichotomy in practice (Pressman, 1975; Vroom & Yetton, 1973), the second presented a critique of public officials as primarily a self-serving elite that put their own needs above those of citizens (Cole & Caputo 1984) and the final one presented public administration as an inefficient and ineffective means by which to allocate public resources (Osborne & Gaebler, 1993).

In the United States, an early attempt to respond to these critiques was contained within the *New Public Administration* movement (George Frederickson, 1976; LaPorte, 1971) —though this movement itself was criticized both for unnecessary federal interference in local public services (Cupps, 1977) and for failing to result in a significant increase in citizen engagement in the public policy process (Walters, Aydelotte, Miller, 2000; Weber, 1998). Consequently, the NPM movement argued for a more managerial and market-oriented framework for public services delivery and for one that did not simply reform the role of citizens and public administrators but which sought to recast them entirely.

The classic formulation of the NPM was in Hood's (1991) seminal paper. This drew attention to the growth of a distinctly managerial, as opposed to administrative, approach to public services delivery. The key elements of this approach included a consciously managerial, as opposed to administrative or professional, approach to public services delivery, a desegregation of services to their basic units and a consequent focus on their unit costs, a preoccupation with performance management and output control, the growth of the use of markets and competition as a means to allocate resources (and a subsequent reformulation of citizens as public service "customers"), and an especial attention to the lessons from private sector management for the delivery of public services (Hood, 1991).

This influential article, and others, led subsequently to important debates both about the appropriateness of the managerial, as opposed to administrative and/or professional, model for public services delivery and about its impact upon this delivery (inter alia, Hood & Jackson, 1991; Kickert, 1997; Lynn, 1998; Pollitt & Bouckaert, 2004; Thomas, 2012). While some of these critiques focused upon a comparative evaluation of managerial as opposed to administrative models for delivery public services, others argued against the basic premise of the suitability of the market as a mechanism for the allocation of public resources (for example, Schachter, 1997). This latter argument built upon an earlier and on-going discussion about the comparable nature of private and public sector management: Are they indeed, to use the classic formulation of Allison "alike in all unimportant aspects" (Allison, 1983; see also Ring & Perry, 1985).

To an extent this debate about the legitimacy or otherwise of the NPM model has been over-taken by events. While the issues of efficient and effective utilization of public resources have never gone, and will never go, away they have been become subsumed increasingly within the reality of a postmodern fragmented society and fragmented state (Haveri, 2007). This reality has meant that the *intraorganizational* focus of the NPM, and previous, paradigms do not reflect the *interorganizational and interactive* nature of contemporary public services provision. Nor have they embraced either the increasingly *processual and systemic*, as opposed to *discrete and transactional*, nature of the public service delivery process or the way in which they have become knowledge-driven within the digital economy. Subsequently, therefore, novel approaches have developed that have attempted to respond to this new reality—including public value

(Moore, 2002), digital governance (Dunleavy, Margetts, Bastow, & Tinkler, 2006), and the New Public Governance (Bingham, Nabatchi, & O'Leary, 2005, Osborne, 2010; see also Alford & Hughes, 2008).[4]

What has been remarkable in this latter consideration of the legitimacy and relevance of the NPM has been the frequently implicit assumption of a unified and integrated body of management theory derived from private sector experience and upon which to ground contemporary public management. Yet this is far from the case. We argue here that the concepts and evidence upon which current public management theory is based has been drawn from a body of private sector theory derived from the experience of manufacturing and industry—such as Porter's influential work on competitive advantage (Porter, 1986). This body of theory assumes a range of core elements of the production process, but three are especially important. These are, first, that production and consumption are discrete processes that are ruled by different logics. Second, and consequently, that the costs of production and consumption are distinguishable and separable. Finally, that consumers are largely passive in this process.

Over the past three decades, however, there has developed an alternative body of theory and research both about the management of *services* and about *service-dominant logic*. Originating initially in a discussion about the marketing of services (Gronroos, 1978) this has now evolved into a substantive theory in its own right often (e.g., Gronroos, 2000; Lusch & Vargo, 2006; Normann, 1991). What is remarkable is that the above debate about the management of public services has been conducted in almost ignorance of this influential body of theory, and despite its apparent relevance. Services management theory addresses the issue of the distinctiveness of the service experience, the often interorganizational and systemic nature of public services delivery and the issue of the role of the consumer as the shaper, coproducer and evaluator of the service experience. The time is therefore long overdue, surely, to explore the potential and actual contribution of *a* service-dominant approach to public management and public services delivery. We denote this approach as *the public service-dominant logic* of public services delivery and management.[5]

Services Management and Service-Dominant Theory: A Brief Primer

At its most basic level, manufacturing and product-dominant theory relates to activities that physically transform raw materials to produce saleable goods, and include a transfer of ownership in this sale, whereas service-dominant theory relates to activities and processes concerned with the transaction of intangible benefits and where ownership of these activities is not transferred (Normann, 1991). While there are numerous statements of the characteristics of such services, three core characteristics are traditionally referred to. *First, that while a product is invariably concrete* (such as a washing machine) *a service is intangible—it is a process* (staying at a hotel is not simply about the quality of the room that you rent, it is also about the overall process/experience of your stay). This is not to say that the content of a service (its purpose) is irrelevant. This is nonsense. Of course a service (whether a healthcare or lifestyle service) must deliver its intended benefits. However research also consistently suggests that while service users expect a service to be "fit for purpose," they base their judgment of its performance upon their expectations and experience of the process of service delivery rather than upon outcomes alone (Lovelock, 1983). This means that influencing and understanding a user's expectations of a service is fundamental to their experience of, and satisfaction with, that service—and that this experience then affects quite profoundly the effectiveness and impact of that service. Gronroos has argued persuasively that a common failing of services management is attempting to provide

a "missing product" rather than concentrating upon the process of service delivery (Gronroos, 1998). This is a failing that we would argue is endemic to public services management.

Although there is no simple list of accepted activities in order to provide "good" (or appropriate) levels of service, there are several key elements that are prevalent across the literature. These include knowing who the users of a service are, their expectations, requirements and value expectations (Vandermerwe, 2004), developing, articulating and sharing a (compelling) service promise or offering (Clark, Johnston, & Shulver, 2000; Goldstein, Johnston, Duffy, & Rao, 2002), designing and "engineering" both the service and the experience of it in order to deliver this promise (Verma, Fitzsimmons, Heineke, & Davis, 2002; Zomerdijk, & Voss, 2010), creating a service culture and user-focused mindset (Johnston, 2008; Skalen, & Strandvik, 2005), and measuring and assessing the service from the point of view of the user (Olsen, & Johnson, 2003).

The second core concept of services theory is that there is a different production logic for manufactured products and services. For the former, production, selling and consumption occur separately (as with the above example of a washing machine). With services however, *production and consumption occur simultaneously.* The production of a sporting event takes place at exactly the same time as its consumption, for example, as does the production and consumption of residential care. Because production and consumption are not separable for services, this implies entirely different business logic for them from manufactured products (Edvardsson & Loson, 1996; Prahalad & Ramaswamy, 2004). It is quite possible to reduce the unit costs of a manufactured product, for example, by reducing labor costs in order to increase the efficiency of production (perhaps through automation). To a great extent, changes to production staff do not affect the sale of that product in the market or the experience of it by its consumers. However for a service, reducing its unit costs by changing staffing levels or experience directly affects the experience of that service by its users—and its subsequent effectiveness. The two processes are not separable.

This implies an entirely different logic to the management of manufacturing products, as opposed to services. Because the production and consumption of services takes place contemporaneously the production process directly affects consumption rather than having an articulated relationship to it. At an extreme, it matters little to a user if the production staff for their washing machine are dressed only in their underpants, as long as the washing machine itself is fit for purpose. Yet this scenario would be wholly different in the case of business consultancy or residential care, for example!

Finally, the role of the user is qualitatively different for manufactured products and services. In the former they are "simply" their purchasers and consumers. However, for services, *the user is also a coproducer of the service.*[6] At the most extreme, no service is ever produced identically to two people—a meal in a restaurant is as much a product of the interaction between the customer and the waiter as it is of the quality of the food, as is a consultancy intervention by the consultant and client, while a surgical procedure is influenced just as much by the individual pathology of a patient as by the skills of the doctor. At a fundamental level, therefore, coproduction is not an "add-on" to services but a core feature of them (Osborne & Strokosch, 2013).

The implications of these three core characteristics for public services are myriad, and impossible to do full justice to in this article. However one implication is especially significant. This is that the performance of a public service is not (solely) about its effectual design in relation to its purpose but is, at least, equally about the subjective experience of that service by its users. This is made up of the collision of their expectations of the service and their perceptions of the experience of the service delivery process—*and this collision profoundly impacts upon the actual performance of that service.* Normann (1991) argues that this collision occurs at what he has called the "moment of truth" when the service user and a specific staff member (be it professional,

receptionist or car park attendant) of the service organization interact. The quality of this interaction, argues Normann, affects not only the satisfaction of the service user but also their service outcomes. Consequently, successful public services management is not exclusively about the effective design of public services—this is a necessary but not sufficient condition. Rather it also requires both governing and responding to the service expectations of service users and training and motivating the service delivery workforce to interact positively with these users. This is not simply about user satisfaction, as the consumerist movement would argue (Powell, Greener, Szmigin, Doheny, & Mills, 2010), but rather it has a direct influence upon public service outcomes. We have known this for some time in some specific public service domains (for example the role of patient—clinical team interactions upon oncology outcomes—see Katz et al., 2005), but this knowledge has had little impact upon mainstream public management theory.

Some caveats must be added to this initial exposition. First, it is important of course not to reduce the array of service experiences to sophistry. The above characteristics are a continuum not a steady state. There is a world of difference between hospitality services, retailing, the creative industries and financial services, for example—the latter may limit coproduction purely to the completion of forms with personal data while the former require far more interpersonal interaction (Maddern, Maull, & Smart, 2007). Second, one of course also has to be careful when transferring lessons from the private to the public sector—whether from a manufacturing or services context. This needs to be framed within a critical view of the relationship between these sectors. This is returned to further below. Third, the increasing use of electronic and web-2 media to provide financial and retail services, in particular, has a whole logic and experience of its own that is challenging many of the assumptions of the last two decades about the process of service delivery (Bitner, Brown, & Meuter, 2000, Fassnacht & Koese, 2006). This too has implications for public services delivery in the era of digital governance.

Finally, and most importantly, services theory itself has undergone considerable conceptual development over the last decade. An influential group of writers have argued that the above three characteristics (intangibility, simultaneous production and consumption and coproduction) of services are actually second order characteristics. This school of thought has reached its zenith in the work of Stephen Vargo and his colleagues (Lusch & Vargo, 2006). Turning the traditional argument on its head they argue that "service" is actually a core feature of both services and products. A *service-dominant* approach is the only way to add genuine value to either.

Developing this argument, they maintain that service has "always characterized the essence of economic activity" (Lusch & Vargo, 2006, p.17) and that in the modern knowledge-based society this has become even more so. Production is actually a process of knowledge transformation rather than of tangibility, and it is this which is the basis of authentic coproduction (Lusch & Vargo, 2006). Effective service management is thus not concerned with the control of the unit costs and efficiencies of a production process but rather with "the application of specialized skills" and where "knowledge is the fundamental [resource]." In this process the service user is always the coproducer of value in that there is no extant value for a service until it is used—"experience and perception are essential to [service] value determination" (Lusch & Vargo, 2006, p. 44). A service-dominant approach is one that places "activities driven by specialized knowledge and skills, rather than units of output, at the center (sic) of exchange processes." (p. 55).[7]

Combining the three characteristics of traditional services theory as delineated above, together with a service-dominant approach that emphasizes the role of knowledge transformation is, we argue, the way forward for public management theory in the era of the New Public Governance. It is this contribution that we want to articulate in the remainder of this article—for *a public service-dominant approach* to public services delivery and management.

A Public Service-Dominant Approach to the Delivery of Public Services

It is important in this argument not to overstate our case. Again, as argued further below, public services have distinctive characteristics that mean any service-dominant approach cannot simply be a mechanistic transfer of insights from private sector service experience. This would be pedantry and is a legitimate critique of the simplistic "consumerist" approaches to public services delivery that seek to privilege the consumer perspective about service satisfaction but without a broader grounding of either service-dominant logic or how this links into public service outcomes (Jung, 2010; Powell et al., 2010,). Moreover, there are distinct bodies of theory and research in relation to some public service industries, such as public leisure management (Robinson, 2003; Sam, 2009) and regional tourism policy (Kotler, Hamber, Reis, & Haider, 2001) that have engaged already with services theory. Finally, discrete tools from services management have also been applied to public services delivery—such as the SERVQUAL quality tool (e.g., Donnelly, Kerr, Rimmer, & Shiu, 2006; Wisniewski, 2001)—but without attention to the implications of service dominant logic for public management theory as a whole.

Notwithstanding these qualifications, it is argued here that service-dominant insights have been notable in their absence from the *core* literature and debate in the field of public management. We maintain that both public management theory and public services management practice would be enhanced by the adoption of a *public service-dominant approach*. We will now consider the potential contribution and importance of this approach for public management theory with regard to four core issues within public services management and will use this exposition to develop four propositions of our new approach. These issues are the strategic orientation of public service organizations (PSOs), the role of marketing in the delivery of public services, the coproduction of public services, and the operational management of these services.

Four Applications and Four Propositions

Strategic Orientation

The fundamentals of strategy are central to the management literature in general (e.g., Mintzberg 1989; Pettigrew, Thomas, & Whittington, 2001) and to public management in particular (Bozeman & Straussman, 1990; Perry & Rainey, 1998). According to this literature, effective organizations produce organizational decisions and direct actions toward achieving their goals—both contemporaneously and in the future. According to some authors (Grawe, Chen, & Daugherty, 2009; Narver & Slater, 1990), such *strategic orientation* is the fundamental requisite for any successful organization. This refers to the organizational capacity (often described as an "intangible asset") to create common values and behaviors by sharing knowledge and information about their external environment among employees (Deshpande & Webster, 1989, Grawe et al., 2009; Sinkula, 1994).

This approach has been developed further within service-dominant theory to consider "strategic orientation" as a holistic organizing concept for service firms (Lovelock, 1983). It brings together the external market environment and user expectations that a service firm is addressing, the enactment of its "service promise" by its entire staff, and the integration of operational service delivery and strategic service orientation (Teboul, 2006).

For PSO's, strategic orientation refers to the capacity to understand the needs and expectations of citizens and service users—both current and future (Sofaer & Firminger, 2005). Public engagement thus becomes a core dimension for any PSO as part of their strategic orientation and

functioning mechanisms: This interactivity generates basic information about current and future needs that can then support policy formulation and implementation.

Such an approach integrates the citizen engagement preoccupation of public administration with the consumer focus of NPM. This is also one area of public management where some work has already been undertaken from a service-dominant perspective. This work has argued for a strong focus and continual monitoring of the "fit" between a PSO and its (societal) environment, and for consistency of organizational structure and management processes to support the strategic orientation that this leads to. Poister & Streib (1995), for example, proposed a strategic model for PSOs grounded in the core values of a service-dominant approach. This brought together the internal management of a PSO (including organizational structure, budgeting, and performance measurement), human resource management, service delivery system design, and external relations. Chew & Osborne (2009) have also explored the strategic positioning behavior of UK charities, while Moore & Benington (2010) have argued that public agencies should set and pursue their strategic goals in order to simultaneously achieve operational efficiency and effectiveness, enhance citizens' trust and create tangible "public value."

Despite these important contributions, we argue that PSOs have not yet fully embraced the need for strategic orientation. They continue to be dominated by an introspective, product-dominant, perspective. Technical criteria and a unit cost-related culture continue to dominate, rather than one concerned with citizen engagement and user needs (Adams & Thomas, 2012; Olston, Slater, & Hult, 2005). A service-dominant approach to strategic orientation would posit that citizen engagement and user involvement should occur at all phases of a (public) service lifecycle: At the public policy making stage in which needs are identified and prioritized (Box, 1998), in the definition of the service promise (Normann, 1991) and during the service enactment process (Gronroos, 2007). Adams & Thomas (2012) helpfully suggest that during these phases services users play three different roles that imply different demands and different service challenges: citizens, customers, and partners. This is a powerful organizing concept for a service-dominant strategic orientation for public services.

Public management theory has discussed both citizen engagement and user involvement extensively (e.g., Roberts, 2004). However, this discussion has thus far failed to consider successfully the interaction of these two groups—citizens are actual or potential public service users while services users are also citizens. A service-dominant approach can address this failing because of its emphasis upon engagement with all the stakeholders of a service, rather than separating them into either citizens or consumers, as public administration and the NPM do respectively. Some public management approaches exist already that embrace a stakeholder approach to public services delivery (e.g., Bryson, 2004)—but they can achieve greater impact within a genuinely service-dominant framework that privileges the external orientation of a PSO and the impact of this upon its internal workings and service offering.

In this context, PSOs have lagged behind service-dominant practice in the private sector in the role that digital technology can play in driving and supporting their strategic positioning activity. This technology can support an externally oriented service-dominant culture that will most effectively enhance organizational performance (Rust & Thompson, 2006). Yet where PSOs have thus far introduced digital technologies, it has been largely at an operational rather than strategic level and has failed to acknowledge the implications of a services-dominant approach for the strategic orientation of PSOs. A service-dominant approach to these technologies, in contrast, would have both enhanced engagement with service users as well as communication with communities and citizens more broadly, as one recent commentator has argued (Tat-Kei Ho, 2002).

Through their adherence to product-dominant logic, therefore, PSOs have failed to further the holistic integration of their internal and external environments. This has left them rooted in internally oriented, functional, configurations rather than externally orientated and holistic

service-dominant ones (Nasi, Frosini, &Cristofoli, 2011; Norris & Moon, 2005; Reddick & Frank, 2007; Walker, 2006). This internal functional approach has undoubtedly produced some important internal efficiency gains for PSOs, as discussed further below. However a service-dominant approach links these gains both to organizational effectiveness, as well as efficiency, and to an integrated understanding of citizen preferences and user needs.

In summary, a service-dominant approach to strategic orientation has the potential to link the internal and external domains of PSOs, adding value to both by their integration. It can move beyond the reductive internal focus of the NPM and lead to a strategic approach for PSOs that is more in line with the realities of contemporary public services delivery in a plural and fragmented environment. As such it has the potential to become the cornerstone of the development of the New Public Governance paradigm for public management. From this perspective we derive our first proposition of a public service-dominant logic.

> *Proposition 1*: By adopting a public service-dominant approach to public services delivery both the citizen and user are situated as essential stakeholders of the public policy and public service delivery processes and their engagement in these processes adds value to both.

Marketing Public Services

The marketing of public services is not just about the "selling" of public services, as a more transactional, product-dominant approach would suppose. It has the potential to integrate a number of distinctive public management challenges. These include the implementation of their strategic positioning, as derived above, communication with service users and their engagement in the service coproduction process (below) and the evaluation of the service experience and effectiveness in order to improve public services delivery in the future (McLaughlin et al., 2009). In its guise of "social marketing" it also has the potential to be a vehicle to stimulate behavior change by citizens (Pettie, Pettie, & Thomas, 2012). Finally, the literature on services demarketing also has interesting insights about how to ration services in times of economic scarcity or when demand far exceeds the available services (Osborne & Kinder, 2011)—and which is one element of services marketing that has been used extensively within both the North American and UK health services (for example, Kindra & Taylor, 1995). The reason that the full potential contribution of marketing to public services management has not been realized is because of the latter's enduring reliance upon transactional, product-dominant approaches to marketing rather than the extensive services-dominant marketing and relationship marketing literature. Not only does this literature have the potential to enhance the interaction between PSOs and citizens and service users, it also has significant insights to offer about the creation, maintenance, and sometimes termination, of relationships between both different PSOs engaged together in providing a public service and between PSOs and their service users.

Marketing both as a functional role and as analytic framework has a comparatively recent history in public management. In the United Kingdom, for example, it was not until the 1980s, when the "marketization" of public services under the then Conservative government commenced in earnest, that attention was turned to the potential benefits of marketing for PSOs operating in market and quasi-market conditions (Le Grand, 1993; Sheaff, 1991). This marketization was a core driver for the growth of the marketing function within British PSOs and has had a profound influence upon its trajectory since then. Central to this influence has been the assumption that market relations are based upon discrete and finite product-dominant transactions and with little thought to the governance of reciprocal or on-going transactions and relationships (Walsh, 1991). A similar trajectory of development in the field of public sector marketing has occurred in the United States (for example, Lamb, 1987; Lee & Kotler, 2006).

As a consequence of these product-dominant assumptions, the marketing behavior of individual PSOs, whether in the public, private or nonprofit sector, in practice has often been individualistic in nature and self-seeking, arguably to the detriment of whole public service system. Furthermore, individual PSOs have often been drawn into market scenarios for public services that have privileged competition and adversarial relationships over collaboration both *between* PSOs and *within* them. A good example of this was the marketization of healthcare by the Conservative government in the United Kingdom in the 1980s and early 1990s. This encouraged individual hospitals to compete for patients, often in high demand areas of healthcare, but at the cost of the overall responsiveness of the healthcare system to the total health needs of the community—expensive or niche needs were abandoned as not being economically viable in a marketized health system.(McLaughlin et al., 2009).

This approach has had two implications for development of marketing within PSOs. First, it has constrained it to a focus on product-dominant, intraorganizational and operational debates as opposed to its potential contribution to strategic decision making and interorganizational collaboration. Second, the place of marketing within PSOs has become a highly contested one, often limited to discrete roles such as fundraising or service promotion (Chew & Osborne, 2008; Laing & McKee, 2000). Both these implications have limited the potential role of marketing to shape the strategic behavior of PSOs (McLaughlin et al., 2009).

At a theoretical level, such approaches to marketing are derived from a model of exchange theory that supports a purely *transactional* view of marketing, with the individual firm as a unitary entity operating in isolation from and in competition with other firms. This perspective had its genesis in the product-dominant experience of the manufacturing sector, where discrete transactions dominated that had a distinct beginning, short duration and sharp ending (Morgan & Hunt, 1994, p.1). An alternative discourse is extant though, that derives from service-dominant logic and which to date has barely been explored in a public management context. This is *relationship marketing* (RM). Harker (1999) has defined this as an organization engaging in ". . . proactively creating, developing, and maintaining committed, interactive and profitable exchanges with selected customers over time." (p. 16)

RM thus posits argues that sustainable competitive advantage increasingly requires collaborative activity rather than rivalrous competition and that relationships are often the most valuable resource of a firm (Helfert, Ritter, &Walter, 2002; Sharma & Patterson, 1999). Gronroos (1994, 1999a, 1999b), in seminal papers, has argued that RM focuses upon building relationships and that at the core of this activity is *trust*. This is defined as a "willingness to rely on an exchange partner in whom one has confidence" (Moorman, Deshpande, & Zaltman, 1993, see also Ebert, 2009; Selnes, 1998). This literature has also specified its two core dimensions—trust in the *honesty* of a partner to fulfill obligations, and in their *benevolence* to be genuinely interested in your welfare, to be motivated to seek joint gains and not to seek opportunistic benefit (e.g., Gulati, Nohria, & Zaheer, 2000; Lorenzoni & Lipparini, 1999; Morgan & Hunt, 1994).

Within the RM literature, trust is argued both to facilitate the adaptation process that is at the heart of on-going relationships (Brennan & Turnbull, 1999) and to provide the basis for mutual commitment that "reduces the uncertainties associated with opportunistic behavior" in an uncertain environment or market (Sheth, Sisodia, & Sharma, 2000). Given the present emphasis in public policy upon trust as a governance mechanism within the evolving "plural state" (Osborne, 2010), and the difficulty that has been found in conceptualizing it, it is surprising that this important literature has been until now conspicuous by its absence in the debate.

Furthermore, RM can contribute to the on-going debate about performance in the "plural state" by clarifying the relational nature of performance at the three levels identified by Morgan & Hunt (1994)—*the microlevel* of the individual coproduction of public services between service users and PSOs (below), *the macrolevel* of boundary spanning and boundary maintenance

activities for PSOs—both essential for effective interorganizational collaboration (Kale, Singh, & Perlmutter, 2000; Tsai, 2000), and *the mesolevel* involving the engagement of PSOs in the public policy formulation and implementation process as cognizant, purposive, actors rather than as passive recipients (Ring & Van de Ven, 1992, Gulati et al., 2000). By conceptualizing marketing activity across these three levels rather than as simply facilitating product-dominant discrete transactions, we argue, PSOs can both adopt a strategic approach to their role in public services delivery and clarify their overall contribution to service performance. This leads us to our second proposition about a public service-dominant logic.

> *Proposition 2*: A public service-dominant marketing approach is essential both for turning the strategic intent of a public service into a specific "service promise," or offering, and for shaping the expectations of this service by their users and the role of staff in delivering it. It can also form a robust framework for developing trust within public service delivery both between PSOs and with service users.

Coproduction

There is a substantial literature within the public administration and public management field concerned with "coproduction" in the implementation of public policy and the design and delivery of public services (inter alia, Alford, 2009; Bason, 2011; Brudney & England, 1983; George Frederickson, 1996; Ostrom, 1972; Parks et al., 1981; Pestoff, Brandsen, & Verschuere, 2012). While this literature includes a continuum of perspectives on coproduction, it has often set the coproduction of public services apart as a variation on the "usual" model of public service delivery where "public officials are exclusively charged with responsibility for designing and providing services to citizens, who in turn *only* demand, consume and evaluate them" (Pestoff, 2006, p. 506; our emphasis). Thus it discusses the ways in which user involvement can be "added into" the operational process of service delivery (and as opposed to the upstream, strategic, level of policy making).

Such an understanding of coproduction, we would argue, is derived from product-dominant logic where production and consumption are separated as discrete processes—thus public services are conceptualized as products to be designed and produced by public policy makers and service professionals and consumed (relatively) passively by service users. Coproduction can only occur at the behest of, and controlled by, service professionals.

Coproduction is an important debate within public management. It goes to the heart both of effective public services delivery and of the role of public services in achieving other societal ends—such as social inclusion or citizen engagement. However, we would argue that currently the debate is based upon a partial and mistaken view of coproduction, as something to be added to "traditional" public service delivery for distinct ends. In contrast, a service-dominant approach offers a very different perspective upon coproduction. As our earlier discussion made explicit, coproduction is a core element of the service delivery process—an essential and intrinsic process of interaction between any service organization and its service users at the point of delivery of a service (Gronroos, 2007). From a service-dominant approach, there is no way to avoid the coproduction of public services because it is an inalienable element of such services. The question thus is not how to "add-in" coproduction to public services but rather how to manage and work with its implications for effective public service delivery.

As discussed above, Normann (1991) encapsulates such coproduction as "the moment of truth" of services delivery. Service organizations can only "promise" a certain process or experience—the actuality is dependent upon such coproduction. A classic example of this would be the coproduced experience of residential care by the interaction of staff and service users in a

residential home for the elderly. The managers of this home may have a vision of what care they want to provide, but the actuality of it is enacted in the iterative interactions between service staff and service users.

In reality, of course, such coproduction of public services is more of a continuum than a steady state. Public services such as residential care and education are clearly instances where it is high, owing to the fact that consumption and production take place at the same point in time and with direct face to face contact between the service user and the service provider (in the care home or the classroom respectively). By contrast, they are rather lower for electronic public services (such as paying your local taxes through a web portal) that do not have the interpersonal immediacy of face-to-face contact between the service provider and the service user. Yet even such services do still exhibit coproduction from a services management perspective—even if the coproduction of such "e-services" is essentially minimal and passive (inputting financial data on yourself or choosing from a list of preset options).

Conceptualizing coproduction as a core characteristic of public services delivery fundamentally reframes our understanding both of the service delivery process and of the role of public management in achieving service outcomes. To take just one issue, a service-dominant approach to innovation in public services puts the service user rather than the policy maker or professional at the heart of this process (e.g., Gallouj, 2002) and has profound implications for the management of the process—such as in terms of how public service innovations are derived and how risk is governed in the innovation process (Brown & Osborne, 2013; Osborne & Brown, 2011). A core element of a service-dominant approach to the coproduction of innovation is that it seeks to unlock the tacit or "sticky" knowledge that service users possess in order to improve existing or develop new services (Von Hippel, 1994, 2005). Here, the service organization proactively seeks to uncover, understand and satisfy "latent (or future) needs," rather than simply reacting to existing or currently expressed needs—as has invariably been the case with public services. The service-dominant literature has highlighted a range of ways in which such service user coproduction of innovation can be achieved (for example, Alam, 2006; Kristensson, Matthing, & Johansson, 2008) as well as highlighting some of its drawbacks and dangers (such as overcustomization and its consequent financial implications). Such insights are a qualitative contribution to our understanding of the nature and process of innovation in public services.

Finally, acceptance of a service-dominant approach to coproduction does not preclude the possibility of combinatory insights. Elsewhere, for example, Osborne & Strokosch (2013) have sought to integrate a service-dominant approach with the specific concerns of public administration and management to produce a more holistic theory of the coproduction of public services. It is precisely through such novel combinatory approaches, we would argue, that genuinely original and insightful public management theory can be generated which is legitimately rooted in nature of public services as "services" and which acknowledges the centrality of the service user to their performance—but which also takes cognizance of the public policy context of these services. Considering this, therefore, we derive our third proposition.

> *Proposition 3*: By taking a public service-dominant approach, coproduction becomes an inalienable component of public services delivery that places the experiences and knowledge of the service user at the heart of effective pubic service design and delivery.

Operations Management

Operations management is about how organizations design, plan, control, manage and improve the delivery of their goods and services (Slack, Johnston, & Chambers, 2004). There has been an increasing pressure over recent years for public services around the world to increase their

efficiency by adopting practices from operations management within private organizations (such as in health-care (Fillingham, 2007), central government (Radnor & Bucci, 2007) and local government (Krings, Levine, & Wall, 2006; Seddon, 2004). PSOs have focused particularly on business process improvement methodologies. A recent review revealed that 51% of such projects focused on "lean" and a further 13% on "Business Process Reengineering"—and with 35% originating within the health services (Radnor, 2010).

Our contention here is not that these methodologies, by themselves, are inappropriate for such efficiency agendas. Indeed, the services management literature suggests that poor service delivery invariably results from operational design and management imperfections—and that most such problems (around 70%-90%) are recurrent and built into defective internal service processes, albeit if often inadvertently (Edvardsson & Olsen, 1996; Johnston, 2008). Rather our contention is that the operational improvement methodologies that have been implemented within PSOs have had an intraorganizational (product-dominant) rather than extraorganizational (service-dominant) orientation. The result has undoubtedly been to produce more efficient PSOs, but with limited, if any, impact upon their effectiveness (Radnor & Johnston, 2012). We would argue that if this continues, then PSOs will continue to fail to meet user needs—no matter how "internally efficient" they become. We would argue that a public management theory "fit for purpose" requires us to explore the interactivity of internal services operations management with external service delivery if it is to become a real tool for public service transformation in a time of austerity. Indeed, the services management literature makes explicit that the quality of internal processes are a key influencer of, and contributor to, the quality of external service (Parente, Pegels, & Suresh, 2002; Zeithaml, Bitner, & Gremier, 2008). By taking a product-dominant, rather than service-dominant approach to operational improvement, therefore, PSOs are severely limiting the potential of such improvements to enhance their effectiveness for their users. The service-dominant literature suggests that theses impacts can include increased service user satisfaction (Gremler, Bitner, & Evans, 1994), improved staff motivation and retention (Lings & Greenley, 2005), and enhanced financial performance (Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994; Heskett, Sasser, & Schlesinger, 2003). Normann (1991) has called this the "virtuous circle" of service improvement that explicitly links improved performance within the organization to improved performance externally and with service users—because service production and consumption are taking place contemporaneously.

This case can be made more forcefully by considering briefly the lessons emerging from the implementation of "lean" operational management methodologies into United Kingdom public services. Originating from the Toyota Motor Corporation, lean has been argued to be a radical alternative to the traditional method of product-dominant production, in terms of optimal efficiency, quality, and cost (Holweg, 2007). Lean seeks to reconfigure internal organizational processes to reduce waste and enhance external productivity. It does this through the application of specialist analytical tools and techniques coupled with creating a culture of continuous improvement that is externally focused upon customer needs and requirements (Womack & Jones, 1996).

There have been noteworthy applications of lean in public services, with some important impacts. The UK Ministry of Defence, for example, reported a fall in the cost of maintaining one aircraft from GB£711 to GB£328 together with a reduction in manpower required for this activity by 21%; the Connecticut Department of Labor eliminated 33.5 staff hours in its work by the redesign of its processes, saving US$500,000 in staff time over a year; and Solihull Borough Council produced GB£135,000 saving in the postal costs for its fostering service, through a lean review (Radnor, 2010). Other reported benefits include the reduction of waiting time for public services and a reduction in service costs through a reduction in resource utilization (Silvester, Lendon, Bevan, Steyn, & Walley, 2004).

In analyzing the nature of these improvements, though, Radnor (2010) has argued that most resulted in large part because many organizational processes within PSOs were so poorly designed in the first place that it would have been very hard not to achieve these improvements. Such initial gains, however, have proven hard to maintain in the longer term. In other words, the implementation of lean for public services has led to impressive internal efficiency gains in the short term but which gains, in most cases, either stalled over the longer term and/or failed to materialize into more substantial and sustained improvements in external organizational performance. This was because lean was implemented without an understanding of the full service-dominant logic required to achieve these more substantial improvements (Radnor, Holweg, & Waring, 2012). This would have required lean to be situated within a clearer understanding of the externally oriented service-dominant concept and its implications for organizational culture, as well as the need both to implement and to evaluate the lean process from a user's perspective rather than from an internal organizational one—both key elements of effective services management (Clark et al., 2000; Johnston, 2008; Olsen & Johnston, 2003).

In conclusion, PSOs therefore have, and are, making short term gains in improving their internal processes through lean, but have not made the leap of linking these internal operations to their external service delivery. This is surprising—and problematic. Successful lean is predicated upon an external service user focus (Womack & Jones, 1996), yet the main driver for it within PSOs continues to be an internal efficiency focus. If lean is to make the contribution to PSOs of which it is capable, this will require its implementation within a service-dominant framework that is externally focused. As it stands, the current implementation of lean to public services has adopted many of its discrete tools but failed to appreciate its underlying logic within a services context. There is hence a major piece of work to be undertaken that situates not only lean but operations management as a whole within the full logic of service-dominant production and considers the adaptation of this for a public services context. This leads to our final proposition.

> *Proposition 4*: Without a public service-dominant approach, operations management within public services will only lead to more efficient but not more effective public services. However, without operations management, a public service-dominant approach to public services will lead simply to a "public service promise" unfulfilled.

Conclusions: Possibilities and Limitations

This article has argued that current public management theory and practice is flawed in its over-reliance upon empirical and theoretical insights from product-dominant management theory derived primarily from the manufacturing sector. This has represented a fatal flaw within the NPM paradigm. Further it was argued that this body of theory is especially ill-suited to embrace the focus on service systems and relational governance that is at the heart of the New Public Governance. Consequently this article has argued instead for an alternative approach that is drawn from service-dominant management theory. This latter approach emphasizes the distinctive characteristics of services and their impact upon their management, takes a holistic and systemic approach to the delivery of (public) services and acknowledges the central role of service user expectations and experience to the performance of (public) services. It has explored four areas, as exemplars, to demonstrate what might be the import of adopting a services-dominant approach to public management and public services delivery. Through this exploration four propositions have been presented as the basis of a new public service-dominant paradigm. To recapitulate, these propositions are

Proposition 1: By adopting a public service-dominant approach to public services delivery both the citizen and user are situated as essential stakeholders of the public policy and public service delivery processes and their engagement in these processes adds value to both.

Proposition 2: A public service-dominant marketing approach is essential both for turning the strategic intent of a public service into a specific "service promise," or offering, and for shaping the expectations of this service by their users and the role of staff in delivering it. It can also offer a robust framework for developing trust within public service delivery both between PSOs and with service users.

Proposition 3: By taking a public service-dominant approach, coproduction becomes an inalienable component of public services delivery that places the experiences and knowledge of the service user at the heart of effective pubic service design and delivery.

Proposition 4: Without a public service-dominant approach, operations management within public services will only lead to more efficient but not more effective public services. However, without operations management, a public service-dominant approach to public services will lead simply to a "service promise" unfulfilled.

These propositions offer, we believe, the essential elements of effective public management practice within the New Public Governance. They recognize and respond to the external, inter-organizational reality of this mode of public management, as well as the need to embrace the processual and systemic character of public services delivery within it. It is only through such an approach, we argue, that genuinely sustainable models of public services delivery can be understood, developed and facilitated for the future, rather than through the vain attempts to recreate public services as manufactured goods produced in isolation from the service delivery process and its distinctive logic.

Further work is now needed to elaborate further these propositions and to test their contribution to a genuinely service-dominant approach to public management. Research methodologies do exist to allow for this work.

However it is also important, in concluding, to delineate some of the limitations and challenges that must be faced in adapting service-dominant theory from business practice to public services. There are subtle nuances that are required in its application to public services. Six issues, we would argue, are especially important. First, when considering the application of any body of research and theory from business experience, the distinctiveness of public services needs to be remembered. While public services have increasingly adopted models and insights from business practice, it has rarely been a simple or mechanistic task and not all models or insights are always appropriate. Developing a business to make a profit is somewhat different from developing a PSO to meet a social or economic need, even if both do require some form of economic sustainability. Unlike for a business, consumer satisfaction alone is not an adequate measure of service performance for PSOs. This was the central flaw of the consumerist approaches to public services that were early partial and imperfect attempts to apply discrete elements of service-dominant theory to public services—but without a coherent understanding of service-dominant logic in the round (excellent critiques of these approaches are found in Jung, 2010; Powell et al., 2010).

Second there can be practical obstacles to be overcome in adapting a service-dominant approach to public services delivery. While not absolute limitations, these obstacles have to be negotiated in reframing the public service delivery process as a service-dominant process. These obstacles include including professional opposition to user-led services (Bovaird & Loeffler, 2003), passive, partial and/or tokenistic applications of service-dominant approaches (Sinclair, 2004),

and the danger of the overcustomisation of public services leading to inefficiencies in public spending (Peters & Pierre, 2000).

Third, one would not want to replace the role of the surgeon by the patient in the "coproduction" of oncology services—their professional expertise is vital and irreplaceable. It is important therefore not to have a reductive approach that reduces a service-dominant approach to public services delivery to mere sophistry. However, in the above case, research has also indicated the significance that the coproduction of the overall treatment plan between health professionals and patients has for clinical outcomes in oncology (Katz et al., 2005; see also Guadagnoli & Ward, 1998). Despite this, the introduction into healthcare services of meaningful levels of coproduction remains a contested area (Stickley, 2006). A service-dominant approach to public services delivery, applied sensitively rather than simplistically or mechanistically, could have support and validate such coproduction from the outset.

Fourth, the development of ICT poses new challenges for services management, in both the business and public services. In general many of the traditional "caveats" about the nature of the service encounter have been challenged over the last decade by the rise of e-services (Surjadjaja, Ghosh, & Antony, 2003)—though without undermining the fundamental principles of service-dominant logic (Rust & Thompson, 2006).

In terms of public services, the progress in e-government initiatives has been variable with some arguing that it has been either "chaotic" (Layne & Lee, 2001) or an opportunity missed for genuine service transformation (West, 2004). Others, though, have argued that "digital governance" has the potential to generate genuine user and citizen engagement with public service delivery (Margetts, 2006)—and indeed sometimes irrespective of whether public service managers or politicians would want it (Bekkers, Edwards, Moody, & Beunders, 2011). In this sense digital governance and a service-dominant approach that privileges coproduction may well go hand in hand in the early 21st century. Certainly it will pose new challenges for such issues as trust within a service-dominant context (Huang, Siau, & Kee Wei, 2005).

Fifth, there are inevitable cases where the user of a public service is an unwilling or coerced user. The prison service is a classic example here. In this context the professionals of the prison service have a custodial function that it is would appear hard to coproduce or conceptualize as a service (for prisoners, at least). Even here, though, it has been argued elsewhere that the electronic tagging of convicted criminals within the community is a form of coproduced custody (Corcoran, 2011). Margetts (2009) goes further with this argument, too, suggesting that ICT and web-enabled technologies may be a new incentive and technology to embrace the coproduction of public services—again suggesting that community-based custodial options may be one area ripe for such innovation. Fagan & Davies (2000) have also inverted this argument. They contend that coercion in the delivery of law and order services is not a limitation upon coproduction—but rather that such coercion "raises concerns about the legitimacy of law [and] threatens to weaken citizen participation" and that coproduction is consequently a legitimate response to such service failure that can maintain "the broader social norms of contemporary policing." Service-dominant logic has thus a real contribution to make here for public services.

Finally, a service-dominant approach to public management is particularly complex where public services, as can often be the case, have multiple and/or conflictual users. In the above case of custodial prison services for example, it is a moot point who the actual service user is—the convicted criminal themselves, the court, victims of crime, or society more broadly. This dilemma is highlighted particularly by Bovaird (2005)—not only are there multiple potential users of public services in such cases, but also their needs can be contradictory and sometimes diffuse. This is a substantive challenge for a service-dominant theory of public management that will require genuine theoretical and conceptual development if it is make a substantive contribution

to the field. Yet such challenges are not a reason to delimit a service-dominant approach to coproduction. Rather it is a reason to acknowledge its greater complexity in public services than in the business sector.

Tools to negotiate such multiple and conflictual situations in public services do exist, such as stakeholder approaches (e.g., Bryson, 2004) and would be highly appropriate for application to service-dominant coproduction in such contexts. Moreover, these complexities are not a reason to avoid a service-dominant approach to public services delivery. Rather they reinforce that a service-dominant approach is actively required for such complex situations, rather than one that is simply concerned with compliance with administrative arrangements (Foo, Asenova, Bailey, & Hood, 2011). It is because of, rather than in spite of, these complex issues that we believe that a service-dominant approach to public management is essential. Such an approach can only enrich our theoretical and practical understand of public services delivery by placing these challenges in a framework based upon the actuality of service delivery rather than a misunderstanding of them as discrete goods produced in a wholly product-dominant and transactional fashion.

What is now needed is an agenda of empirical research to test out the insights and limitations of this theoretical approach and to develop a coherent theory of *public service dominant-logic*. This will require its further clarification as a set of testable propositions. A range of methodologies exist that can drive forward this empirical testing and refinement including experimentation (Margetts, 2011), the analysis of administrative data (Andrews & Boyne, 2011), ethnographic study (Huby, Harris, & Grant, 2011) and longitudinal research (Wond & Macaulay, 2011). Inter alia, this research agenda will include

- Specification of the key elements of a public service-dominant, as opposed to a service-dominant, logic and their implications for the delivery and management of public services,
- Examination of the boundaries and overlaps between "citizens" and "public service users" and the implications of these for a public service-dominant logic,
- Exploration of the impact of multiple, unwilling and coerced services users upon a public service-dominant logic,
- Evaluation of the impact of ICT and digital technology upon a public service-dominant logic, and
- Testing within a public services context of existing approaches to service management (such as relationship marketing and service blueprinting) in order to establish their applicability and limitations.

Notes

1. "Cross sectoral relationships" here refers to relationships between public service organizations in the public, private and third (nonprofit) sectors.
2. Deriving from the quality management literature, "fit for purpose" is a concept concerned with the extent to which an idea, service or product performs the function for which it was intended. For public policy and management applications see, for example, Gauld & Mays, 2006.

3. An example of this dominance is the current operational and process improvement agendas for public services in the United Kingdom—these have taken a product-dominant approach which has led to focusing solely on efficiency rather than upon effectiveness and equity (Radnor & Johnston, 2012).
4. We reiterate that this has not seen the vanquishing of the NPM as a paradigm or topic of analysis—witness the recent excellent collect by Christensen & Laegreid (2011) as evidence of that. But it has led to it losing its hegemony as the overarching paradigm of public services delivery in a fragmented world.
5. This formulation pays an explicit debt to the ground-breaking book by Lusch & Vargo (2006) and their concept of service-dominant logic.
6. Importantly, this does not imply any active willingness to coproduce upon behalf of the user—simply that it is impossible to use a service without, in some way, contributing to its coproduction (Korkman, 2006). This might be at a minimal level (by coproducing an insurance policy by inputting your personal details) or more holistically (by coproducing a vacation experience through your needs, desires and involvement in "your" holiday).
7. This approach also has its critics from both manufacturing and services scholars as a "bridge too far" (for example, Achrol & Kotler, 2006; Brodie, Pels, & Saren, 2006).

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