

EDITORIAL ESSAY

A SUSTAINABLE BUSINESS MODEL FOR PUBLIC SERVICE ORGANIZATIONS?

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This editorial essay is the result of ongoing work by the editor and his colleagues over the past decade. It summarizes the direction of this work and suggests an agenda for the future of our research community.

The current global economic recession presents significant challenges to public service organizations (PSOs) that deliver public services to local communities – irrespective of whether these organizations are situated in the public, private, or third sectors. Governments around the world have responded to this recession by a range of strategies intended to reduce public spending and generate growth. This is not the place to debate such strategies – this task has been undertaken by other writers (e.g., Kickert 2012). The general rubric of such strategies, however, has been ‘doing more with less’ (Patterson *et al.* 2009).

As a consequence of this global context, the public service delivery environment has become a challenging one for PSOs, with a range of survival strategies, such as de-marketing (Osborne and Kinder 2011) and Lean (Radnor and Osborne 2013) being considered by these organizations. Consequently, there is a growing need to establish the basis for a sustainable business model for PSOs that will provide a foundation upon which to survive the recession and thence for sustainable growth in the longer term. This brief essay presents our first attempt to address this issue.

Our central argument is that the premises that underlie much contemporary public management theory, in its guise as the New Public Management (NPM), are both flawed in theory and have failed in practice. Far from creating the basis for sustainable PSOs, this theory has actually undermined their sustainability by encouraging a short-term, transactional approach to the delivery of public services. We offer an alternative to this, based within the New Public Governance and the public service-dominant logic (PSDL) for public service delivery (Osborne 2009; Osborne *et al.* 2013). We argue that it is essential for PSOs to move beyond the failed transactional approach of the NPM and take a relational and public service-dominant approach that emphasizes three elements: building relationships across the public service delivery system, understanding that sustainability derives from the transformation of user knowledge and professional understanding of the public service delivery process, and being predicated upon the inalienable co-production of public services with service users.

FROM THE NEW PUBLIC MANAGEMENT TO A SUSTAINABLE BUSINESS MODEL FOR PSOS

The elements, genesis, and history of the NPM have been well analysed elsewhere (for example, Hood 1991; McLaughlin *et al.* 2009; Thomas 2012), and a range of critiques of its managerialist agenda have also been posed (*inter alia*, Bingham *et al.* 2005; Hood and Jackson 1991; Kickert 1997; Lynn 1998; Pollitt and Bouckaert 2004; Schachter 1997; Thomas 2012). We pose a rather different critique of the NPM. Based upon ideas developed elsewhere (Osborne *et al.* 2013), we argue two points. The first point is that the NPM is fatally flawed as a paradigm. The body of managerial theory that it draws on is based upon experience of management within private sector manufacturing industries and with a *product-dominant logic*. This logic emphasizes discrete transactions that transfer

the ownership of concrete goods, rather than the relational process of service delivery that characterizes services theory (Gronroos 2007; Lusch and Vargo 2006). Consequently, we have been working over the last decade to consider the application of services management theory to public services leading to the recent exposition of a *PSDL for PSOs* (Osborne et al. 2013). This is predicated upon the fact that public services are services and not manufactured goods – yet the basis of the NPM is a pre-occupation with the management of manufacturing processes in almost total ignorance of the challenges of services management. This is curious as there is an evolved body of theory and research about services management that speaks directly to the challenges of public service delivery.¹ This includes such ‘new’ insights that public services, like all service encounters, are invariably intangible processes where production and consumption occur simultaneously (even if they include tangible elements, such as a hospital), do not involve the transfer of ownership because they are consumed at the point of production, and are unavoidably co-produced between service professionals and service users at all times (Osborne and Strokosch 2013). Crucially, such an approach moves beyond the focus of inter-organizational networks that characterizes public governance (e.g., Klijn 2008) and embraces rather the concept of public service systems (Osborne 2009, 2010). These include not only inter-organizational networks of PSOs but also service professionals, service users and significant other stakeholders, local communities and service environments, and hard and soft technologies (Radnor et al. 2014).

Our second point is that the NPM has failed in practice to produce sustainable PSOs. It is the case that some of its reforms have had a positive effect upon PSOs – particularly by addressing issues of the prior poor design of public services and PSOs. However, in the longer term, many of the benefits of these reforms have proven illusory, as they have encouraged the development of PSOs pre-occupied almost entirely with internal measures of efficiency and with satisfying their internal customers – rather than with external efficiency and effectiveness and creating public value.² A good example of this failure is the history of Lean reform in both the United Kingdom and the United States. Put bluntly, this has encouraged the development of PSOs that are highly internally efficient but that are also permanently failing in terms of their external effectiveness. Internal efficiency has ‘crowded out’ achieving public value and meeting the needs of (external) service users, citizens, and local communities (see, for example, Radnor and Osborne 2013).

What has been remarkable in the early responses to the global recession by governments and PSOs alike is how rooted they have been in the tenets of the ‘old’ NPM and the belief that internal cost cutting and efficiency programmes will produce sustainable PSOs for the long term (or even the middle term, for that matter). Yet, as argued above, this has failed to facilitate sustainable PSOs in time of growth and is doomed to fail in the current recession and beyond. The underlying question therefore is that of the nature of sustainable business practice for PSOs within this new reality. To, summarize, the challenges that this question leads to include the need

- to understand public services as the result of complex public service delivery systems rather than of either individual PSOs or inter-organizational networks of PSOs,
- to embrace public service delivery as being relational and process-based rather than transactional and product-based,
- to realize that the business logic of public services is, like for all services, different from that of manufactured goods,
- to develop reform strategies for public services that understand that reform requires a cultural change within PSOs away from a pre-occupation with internal efficiency alone and to an externally, end-user-driven culture, predicated upon service effectiveness and the creation of public value,
- to acknowledge co-production as central to the realization of effective public services rather than as a marginal or 'add-on' element, and
- to accept that digital technology is transforming the relationship between PSOs and public service users, as it is for all service delivery.

At the heart of these challenges is a debate about the nature of sustainability for PSOs. Sustainable business practice in commercial markets has traditionally been equated with a healthy 'bottom line' profitability that provides a return for shareholders and/or owners. More recently, however, there has been a growth of alternative models of sustainable practice, including the triple bottom line (Elkington 1994) and social audit and social accounting-based ones (Gray 2002). For PSOs, there has been a strong critical accounting strand over the past 20 years that has argued that 'traditional' bottom line measures of sustainability capture neither the complexity of the challenges that PSOs face nor their role in contributing to higher-level goals of sustainable economies and societies (Ball and Osborne 2010; Guthrie *et al.* 2010).

Drawing upon this debate, we would argue that it is insufficient to focus upon the sustainability of individual PSOs alone (in terms of individual organizational survival and success). It is, of course, necessary (indeed, essential) to ensure that individual PSOs survive as part of service delivery systems, but it is not sufficient. Such sustainability of individual PSOs has to be integrated both with an outward-facing concern with public service effectiveness and a balancing of individual organizational sustainability against overall public service sustainability. Consequently, and drawing upon the above critical accounting literature, we would argue that sustainability for PSOs must be assessed across four dimensions:

- the sustainability of individual PSOs,
- the sustainability of public service delivery systems and their governance mechanisms,
- the sustainability of local communities, and
- environmental sustainability.

On the basis of the above discussion, therefore, and drawing upon recent theoretical developments in the discipline of public management, we argue here for seven propositions to form the basis of a sustainable business model both for public services in general and for PSOs in particular in the twenty-first century. These propositions are that

- public services are systems and not just organizations, or even inter-organizational networks, and need to be governed as such, embracing all of their elements (Radnor et al. 2014),
- individual PSOs need to be sustainable in their own right in the short term – but this is a necessary and not a sufficient condition for the long-term sustainability of PSOs and of public service systems (Bozeman, 2002; Grindle and Hilderbrand 1995),
- consequently, such internal efficiency is necessary for individual PSOs but will not produce sustainable public service systems; rather PSOs need to be outward-focused on external effectiveness for service users and on creating sustainable public value for local communities (Radnor and Osborne 2013; Vidal 2013),
- the key resource and route to effectiveness for PSOs is knowledge (both of professionals and of services users) and the key tools for its transformation into successful public services are relational rather than discrete and transactional – this transformation is currently emphasized and supported by the information generation, sharing, and utilization possibilities offered by social media and digital technology (Bekkers et al. 2011; Margetts 2009),
- sustainable PSOs are dependent upon building long-term relationships across service systems rather than seeking short-term discrete and transactional value (McGuire 2012; McLaughlin et al. 2009),
- co-production is at the heart of public service delivery and is the source both of effective performance and of innovation in public services (Osborne and Stokosch 2013), and
- public service systems need to embrace environmental sustainability also, if they are to be truly sustainable into the second half of the twenty-first century and beyond (Guthrie et al. 2010).

We are working now on amplifying and explaining these propositions further as the basis for sustainable PSOs and sustainable public services in the twenty-first century. In addition to this general amplification, three cross-cutting issues require further attention – the role of Information and Communications Technology (ICT) and digital technology (Bekkers et al. 2011; Margetts 2009), cross-sectoral and inter-industry differences in the nature of sustainability for public services (Ashworth et al. 2013), and the appropriate application of existing soft technologies to the challenges of sustainable public services within a public service-dominant business logic (such as working with

stakeholders (Bryson 2004), externally oriented strategic planning for PSOs (Stone 2010), inter-organizational network governance (Klijn 2008), and risk governance within complex public service systems (Brown and Osborne 2013). This knowledge requires to be harnessed to underpinning an effective approach to a public service-dominant sustainable business model for PSOs and public services.

NOTES

- 1 One discrete area where services theory has been applied to some extent is that of health services management (e.g., Wright and Taylor 2005). However, this application has been primarily applied rather than theoretic or analytic and has also had almost no impact upon the mainstream discipline of public management.
- 2 A full discussion of the 'public value' framework is beyond the scope of this essay. For a more detailed explication, see Benington and Moore (2010).

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