Vive la différence?

Yes, Public and Private Sector organisations are different. But how different are they, and what does this imply for good management in the two sectors? asks Andy Bagley.

The very fact that we draw a distinction between the two – public sector and private sector – is evidence of the way we tend to think of them as very different animals. The cut and thrust of private companies is contrasted with the Yes Minister view of the public sector world. But such caricatures are unhelpful if we are trying to find the real differences between these types of organisations, and hence understand how each can learn from the other.

How different?

The public sector is confined and constrained, isn't it? It has its 'rules' and lacks the freedom of the private sector. Well maybe, but it is more realistic to look at these simply as different forms of constraint. Private companies experience equivalent if not identical constraints, for example through legislation, regulatory authorities, contract requirements, or simply by virtue of owner/group company policy.

Traditional views have also sometimes characterised the public sector as a 'soft option', where the lack of commercial pressures leads to less motivation and lower performance levels. But this too is unfair. Not only are many public servants genuinely motivated and committed to their vocation, but the increasing prominence of inspection regimes such as OFSTED, CSCI, Healthcare Commission, and CPA (Comprehensive Performance Assessment for local authorities) have put many public sector organisations under intense pressure to deliver improved results. Whilst the detailed merits of these various regimes may be argued, the public sector is certainly no longer – if it ever was – a refuge for underperforming managers and staff.

Finally a CBI survey from 2004 indicated that public sector workers average 8.9 days sick leave per year, as opposed to 6.9 days for private sector employees. However, this is greatly overshadowed by the difference between absence in large organisations (which most public sector organisations are) and small ones – 10.2 days per employee for organisations with over 5000 staff as opposed to 4.2 days for those with less than 50 people. Again, any imputation that the public sector is a soft option appears very doubtful.

In essence, the reason that public sector organisations are different is just that – they are public organisations, 'owned' by government or some other representative body rather than by private individuals or shareholders. This means that their purpose is laid down for them. They do not have a choice about what they

provide or what their function is, and hence cannot shift from manufacturing widgets to, say, selling ice cream as private sector companies can. (One only has to look at the diversification of the major supermarket chains to see how this operates – can you imagine the Home Office suddenly deciding to sell car insurance?)

Whilst this may sound fairly self-evident, its consequences are very significant. It means that the private sector 'bottom line' is replaced by a much more complex picture of outcome expectations and relationships.

Different perspectives of success

You may recall a while back Health Minister Patricia Hewitt being derided for stating that the NHS had had 'its best year ever'. Well, she was probably right – but only from the limited perspective of central government and performance targets. Those who criticised her took a different view and concluded she was wrong, because they looked at performance from some alternative perspective, for example from that of patients' experience, the community, hospital budgets or staff working for the NHS. From these other 'stakeholder' perspectives, performance still left a lot to be desired.

This is a classic example of the difficulty in defining 'success' for a public sector organisation; it depends how you look at it. Continuing the health example, what for instance is the definition of an 'excellent' hospital or local health service? Is it one that:

- Treats as many patients as possible with the shortest possible waiting times?
- Achieves the best clinical outcomes for the patients that it treats?
- Has the most highly qualified doctors and other medical staff?
- Has the greatest positive impact on the health of its local community, including prevention as well as cure?
- Maintains good relationships and so is highly regarded by patients, their relatives and the community?
- Maximises efficiency to deliver the best possible services at lowest cost?
- Advances the cause of medical science through world class research and leading-edge treatment?

Targets have to be balanced with the expectations of customers and other stakeholders

Any or all of these could be right depending on the viewpoint and priorities of the person answering the question. Perhaps the only surprising thing about Patricia Hewitt's 'single-perspective' statement is her apparent failure to anticipate the reaction it would get!

This situation also means that a public sector organisation can be judged as successful from one perspective, but still be changed or shut down when another perspective prevails. An example is provided by the experience of the Cumbernauld Accounts Office, a large processing centre that was part of the former Inland Revenue's organisation. Cumbernauld Accounts Office was the first large public sector organisation to win the European Quality Award (an international prize based on the EFQM Excellence Model), in 2000. Just a few years later, the office still exists but restructuring means that its function has changed, it is no longer a separate business unit, and like the rest of Inland Revenue it has been merged into the new HM Revenues and Customs department. Success in winning a prestigious award did nothing to maintain its status.

Similarly in the local government arena, having a 'good' or 'excellent' CPA rating will not protect councils in their present form from the next round of local government restructuring. Interestingly, these Audit Commission-based ratings also seem to have little or no effect on voting trends in local elections, and so provide little reassurance for the politicians in power.

So how can we manage effectively in the public sector when the definition of 'success' is so elusive? I believe this requires two things:

Firstly, a recognition that these different stakeholder perspectives exist, and that no organisation will ever succeed in being 'all things to all people'.

Secondly, a strategy that specifically addresses these different perspectives and strikes a clear balance between them in formulating the organisation's strategy and priorities.

The second of these can require some bravery. It means for example that Chief Executives and Directors have to be up-front in saying that government-driven performance targets are not the be-all and end-all of their existence. They have to be balanced with the expectations of customers and other stakeholders.

High expectations

For evidence of this, think back to the early 1990s and the then-government's compulsory competitive tendering (CCT) strategy. This reflected a particular government priority at the time that sought to make public services more competitive and cost-efficient, hence reducing public expenditure. But it eventually fell from grace because it was too focused on one particular stakeholder priority, that of cost, and failed to address all of the other standards (eg service quality, accessibility, responsiveness) that people expect from public services.

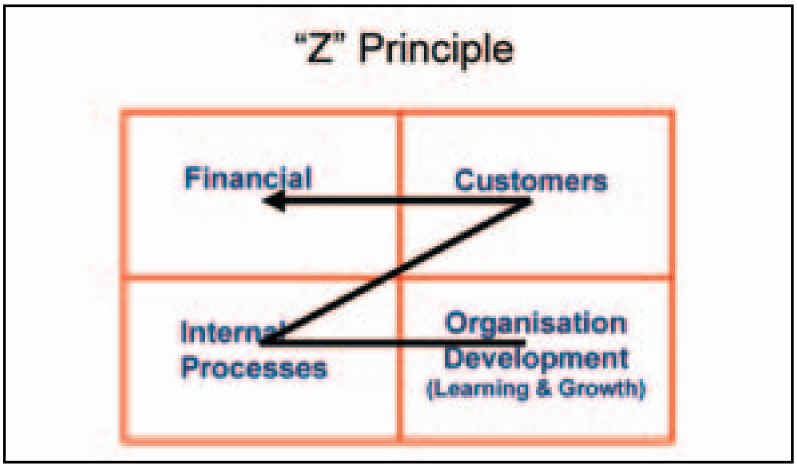
A more balanced approach is essential for public sector organisations nowadays, and one way to recognise this is that first step of identifying key stakeholders for the organisation. Diagram 1 illustrates a

Diagram 1

generic stakeholder diagram, a simple means of showing the many different stakeholder perspectives that an organisation may have to consider.

More complex variations on this will identify many different stakeholder sub-sets; the advantage of this simple version is that it depicts the way that different groups tend to pull the organisation in many different directions. Often, for example, service users will want to see more money spent on services whereas central government (with the taxpayer in mind) will want to see less.

Diagram 2



The excellence model and balanced scorecard

Holistic management models provide an opportunity to demonstrate these principles in practice. The EFQM Excellence Model for example has four Results criteria, and these can be related to particular perspectives that highlight the difference between public and private sector stakeholders:

- Customer Results: Customer or service user perspective (for the public sector, this can include those who have no choice)
- People Results: Staff, at all levels
- Society Results: The community at large, beyond that of customers/service users

Key performance results:

- For the private sector – owners or shareholders
- For the public sector – government or other statutory 'owning' body

This distinction can assist in clarifying not only what the organisation is aiming to achieve but why. For those using the model, it helps to get away from the 'what have we got that we can drop into this criterion?' mindset, and towards the more relevant question of 'what are we trying to achieve, and how can we measure our success, from this stakeholder perspective?' From there, there is a logical connection back to the Enabler criteria, which examine how the organisation formulates strategy and develops action to meeting these potentially competing stakeholder demands.

The Balanced Scorecard presents arguably even greater potential in this respect, particularly in the way that it has evolved from the original four-quadrant model developed by Kaplan and Norton in the early '90s. One such development, particularly applicable to the private sector, simply presents the four scorecard sectors in a progressive sequence, sometimes known as the Z-model, diagram 2.

In other words, organisation development drives internal processes which deliver satisfied customers, which in turn result in successful financial outcomes.

But with the public sector in mind, the picture could be richer still. Firstly, the Financial quadrant broadens out into the much wider perspective of the government or other 'owning' body. Financial results (eg living within budget, achieving efficiency savings) will still be required, but so will other non-financial targets and outcomes. The term 'key performance' is therefore probably more appropriate, borrowed from the EFQM Model because the stakeholder is the same.

Secondly, notice how those top two sectors represent the external viewpoints of the customer and owners/shareholders, whilst the lower two quadrants are internal perspectives, representing what is happening within the organisation. Each of these areas can be expanded: external sectors could be extended to encompass other external perspectives, such as that of the community or of other funding

Diagram 3

providers; internal sectors can distinguish between organisation-based developments and individual/team learning and skills.

The result – and diagram 3 is simply an example – is that the scorecard is no longer restricted to four quadrants, but can take on a wide variety of shapes and forms to meet the particular situation and objectives of each individual organisation. This is the principle of strategy mapping, one of the latest techniques associated with the Balanced Scorecard. Essentially, this aims to identify a balance of success criteria spanning all relevant stakeholder perspectives, and then establishes cause-effect links from the organisation's internal activities and processes. The resulting strategy map forms the basis of an organisation-specific scorecard which enables internal factors to be measured and managed, as well demonstrating the achievement of successful outcomes.

Implications for both sectors

One further thought. I have so far addressed private sector organisations simply in terms of their bottom-line financial objectives. Whilst historically this may be valid, the picture nowadays is becoming increasingly complex even for the private sector, through issues such as corporate social responsibility. It is widely recognised for example that reducing costs by relocating production to sweatshops in the Far East that exploit child labour is not good business practice. Or that dumping untreated chemical effluent isn't a good idea even if you can get away with it.

But why? Is it simply that companies think that if their customers found out about these unsavoury practices they would react adversely, and hence the company would lose sales – in which case the traditional 'profit is the bottom line' paradigm probably still applies? Or is it (as I would hope) a genuine belief and commitment that the company has a wider responsibility to society, beyond the factors that drive its financial strategy? If so, then there is at least one other perspective for the company to consider in assessing its performance, that of an ethical standpoint reflecting global society's expectations.

The public sector is certainly no longer a refuge for underperforming managers and staff

Ultimately, all organisations – public and private sector – should be aware of how they will be perceived by different stakeholders, and should be able to plan accordingly. This doesn't impose any pre-determined formula for success, but provides a framework for organisations to set meaningful goals and learn from others how these can be achieved.

The most effective performance management systems do not take things straight from the textbook or simply copy others. They are based on a real understanding of the organisation, its stakeholders and their expectations, and can adapt and apply improvement principles in that particular context. So yes, the public and private sectors are different, but the distinction does not end there. Every organisation is special – different because of its aims, its environment, and its culture. Really understanding the implications of these differences is critical to effective change and improvement.

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