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## THE MARKETING BEHAVIOUR OF PUBLIC SERVICE ORGANIZATIONS: WHAT CAN RELATIONSHIP MARKETING CONTRIBUTE TO THE DEVELOPMENT OF PRACTICE?

*A cikk amellett érvel, hogy a közszolgálati céloknak nem teljesen felel meg a marketing hagyományos formája. Ez ugyanis túlságosan be van ágyazva a klasszikus közgazdaságtanba és az egyéni döntésekre, illetve a rivalizáló versenyre épít. Ezzel szemben mind az üzleti élet jó gyakorlata, mind a jelenlegi közpolitikai elképzelések az együttműködésen és a kapcsolaton alapulnak. Emiatt a szerzők egy alternatív marketingmodellt javasolnak. Ez a kapcsolati marketing felfogásában gyökerezik és azt az igényt támasztja, hogy a kapcsolati tőke hasznosuljon a közszolgálati szervezetek között és a szervezeteken belül.*

### MARKETING IN PUBLIC SERVICES - AN OPPORTUNITY MISSED?

As government and voluntary and community organizations (VCOs) increasingly work in partnership to make public policy and to design and deliver public services, new challenges are raised for the practice of marketing within public service organizations (PSOs)<sup>1</sup> and for assessing its fitness for purpose within the 'new regulatory state' (Jayasuriya 2004). This task is complicated however by the considerable ambiguity surrounding the role of marketing within PSOs. Based on UK experience, this paper seeks to develop clear conceptual foundations to guide the practice of this functional discipline within such organizations.

It will argue that in the UK the marketing function has been embraced by practitioners, albeit with considerable reluctance, as an inevitable corollary to the public sector reform agenda of the past thirty years, with its dominant notions of consumerism and the 'marketisation' of public services, and rather than as a desirable management discipline in its own right (Walsh 1994, Burton 1999)<sup>2</sup>. In doing so it has neglected the opportunities offered by alternative conceptualizations of marketing that take institutions and networks, rather than consumers, as the central unit of analysis.

This association of marketing with consumerism and marketisation in public management has also lead many critics to conclude that it ought to be confined to operational service delivery issues alone (Walsh 1995). Such a view is at odds, though, with the current dominant models of the plural state and contemporary governance theory that eschew such a clear distinction between policy making and its implementation (Stewart 1996, Jayasuriya 2004).

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1 Public Services Organizations are any organizations from across the governmental, VCO and business sectors that are involved in the provision of public services.

2 This reform agenda is often referred to by the shorthand term of the 'New Public Management.' - or NPM (McLaughlin et al 2002).

We argue that public services marketing practice over this period has been dominated by transactional models of marketing (Laing 2003) that have belied the relational complexity of the above trends. Nowhere is there any evidence of a willingness to test the suitability and/or robustness of alternative models of marketing that might meet the needs of PSOs operating within the current plural public policy environment, with its emphasis on partnerships and relational contracting and governance (Erridge & Greer 2002, Schwartz 2005, Bovaird, 2006).

This paper seeks to address this gap by exploring the utility of precisely such an alternative model for practice – relationship marketing. It is in three parts. It commences by arguing that the model that has underpinned the development of public services marketing is an inappropriate one. Second, it validates this argument by exploring the development of the marketing function within PSOs over the recent past. Third it proposes an alternative model of relationship marketing and evaluates what such an alternative framework might contribute to the practice of marketing within PSOs in doing so it also draws upon the related field of organizational strategy.

#### **MODELING PSO MARKETING BEHAVIOUR: PHILIP KOTLER AND THE GENESIS OF 'PUBLIC SECTOR MARKETING'.**

The growth of the function of marketing within the public and VCO sectors has been driven primarily through the prolific and seminal writings of Philip Kotler and his campaign to broaden the scope of marketing. Over thirty years ago, Kotler & Levy (1969) argued that marketing was

'... a pervasive societal activity [and that all organizations] are concerned about their 'products' in the eyes of certain 'consumers' and are seeking to find tools for furthering their acceptance' (Kotler & Levy 1969, p. 10 – 12)

Kotler thus saw marketing as the key managerial discipline across all sectors of society.

Since then Kotler has keenly pursued this position and has largely been responsible for drawing marketing into the public domain – such as through social change programmes and public education (social marketing), debates about the rationing of public services (demarketing), and the acquisition of resources by PSOs – fundraising (Kotler & Zaltman 1971; Kotler & Andreason 1975; Kotler & Keller 2005).

However his writings have also betrayed an evolving ambiguity about the boundaries of marketing for PSOs. Having argued previously for marketing as a generic organizational function, subsequently he qualified this by introducing an element of marketing conditionality. He argued that it is only possible when five conditions hold true:

- there are at least two parties to the exchange,
- each party has something of value to offer to the other party,

- each party is capable of communication and delivery,
- each party is free to accept or reject the offer, and
- each party believes it is appropriate or desirable to deal with the other party (Kotler & Keller 2005).

These five conditions challenge the applicability of marketing to many public service contexts. Invariably, PSOs are not free to accept or reject public policy initiatives instigated by politicians, for example, nor can their clients always be free to accept or reject a particular public service offering (social control and primary/secondary education services being the most obvious examples of this).

Crucially, Kotler's ideas about the conditionality of marketing exchange are rooted in classical economics and a model of exchange theory that supports a purely transactional view of marketing, with the firm as a unitary entity operating in isolation from other organizations. This transactional view of marketing is based upon a model of discrete transactions that have 'a distinct beginning, short duration and sharp ending by performance' (Morgan & Hunt, 1994: 1).

This position has been criticized latterly in the management literature, however, through the concepts of the 'new competition' (Best 1993) and 'new institutionalism' (Powell & DiMaggio 1991). Drawing upon the work of Benson (1975) on resource-dependency theory and Williamson (1985) on transaction cost analysis these posits a model of network-based organizations that compete by collaborating with other organizations, in order to lever in information, resources and capabilities. Such a model introduces new levels of complexity to exchange relationships that are arguably beyond the scope and competencies of traditional transactional models of marketing and which, it is argued here, is highly relevant to the practice of marketing within contemporary PSOs.

## THE MARKETING FUNCTION AND PSOs IN THE UK

This has a comparatively recent history. It was not until the 1980's, when the 'marketisation' 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 ; Scrivens, 1991; Sheaff, 1991; Walsh, 1991). This marketisation was thus a core driver for the growth of the marketing function within British PSOs. As such it has had a profound influence upon the trajectory of this growth since then. Central to this influence were the classical economic principles of exchange discussed above, that assume market relations to be based upon discrete and autonomous transactions and with little thought to the governance of reciprocal or on-going transactions (Hindmoor, 1998; Walsh, 1991).

As a consequence of these assumptions, the marketing behaviour of individual PSOs has invariably been highly individualistic in nature, and self seeking to the detriment of whole public service system. Further, individual PSOs, and especially VCOs, have often been drawn into competitive market scenarios for public services that have privileged competition and adversarial relationships over collaboration both between PSOs and within them (Palmer 2001).

Three examples will illustrate this argument. First, the original market-based reforms of the UK health care system offer a good illustration of the marketisation of public services – and of its pitfalls. The creation of the internal market in health care in the 1990s created competition between newly created ‘Trust’ hospitals (service providers) and the primary care referral agents, usually general practitioners (service purchasers). The latter agents had, in theory at least, the opportunity to review a range of treatment packages for their patients from an array of providers before making their purchase. The response of individual Trust hospitals to this was to look to the marketing function to develop their competitive position in relation to other Trust hospitals within these newly created markets (Kitchener & Whipp 1995). The archetypal ‘4 P’s’ model, where organizations sought to strengthen their competitive position in the market place by varying dimensions of the product, its promotion, price and place of distribution (Kearsey and Varey, 1998; Sheaff, 1991) informed marketing practice over this period. As a consequence, individualism, inter-hospital rivalry and competitive behaviour flourished. Individual Trust hospitals succeeded by pursuing their own corporate objectives – but at the cost of scant attention being paid to overall health care policy or the holistic health needs of the local community (Fillingham, 1994). Hospitals understandably focused attention on meeting mass needs that could best underpin their financial security rather than on developing specialisms that might be essential to the public health – but which were either expensive to resource or had a highly dispersed market.

As a result of such behaviour, marketing as a profession within PSOs became subject to damning critiques and allegations that it had led to goal displacement and strategic drift in health care (Sheaff, 1991; Scrivens, 1991; Walsh 1994) How could either local or central government steer health policy, it was argued, when individual health care actors were more preoccupied with their own survival than with the health outcomes of patients?

A second example can be found in the field of the personal social services. The NHS and Community Care Act 1991 required local authority Social Services Departments (SSDs) to create a ‘mixed economy of care’ for such services (Wistow et al 1994). These SSDs subsequently found themselves faced with decisions about commissioning services rather than directly providing them.

In their early attempts to create this new mixed economy, VCOs were seen as a natural choice as preferred providers – both because of the perception of them as sympathetic to the needs of vulnerable people (Brenton 1985) and because of their perceived (though unproven) institutional advantages, including cost efficiency, flexibility and consumer responsiveness (Knapp et al 1990).

As a consequence, relationships between local government and VCOs were transformed. The previous ‘grant funded’ relationship between local government and the VCO sector was replaced by a performance-based ‘contract culture’ and the development of, often fractured, principal – agent relationships. The impact of this culture on the VCO sector has been well documented elsewhere (for example, Gutch et al 1990, amongst others).

In 1996, the Deakin Commission (Commission on the Future of the Voluntary Sector 1996) emphasized that a serious breakdown in relations between the

statutory and CVO sectors had resulted from these adversarial relationships and which needed to be addressed by a shift into more relational approaches – leading to the development of the Voluntary Sector Compact (and later, Compact Plus), based explicitly on relational principles (Osborne & McLaughlin 2002). This represented a policy framework for building relationships across institutions – and explicitly at the organizational level.

Yet whilst some attempts were made in this period to develop and test alternative models of the marketing function grounded in the growing PSO experience of relationship management (for example, Laing & McKee, 2000; Laing & Hogg, 2002; Wright and Taylor, 2005), these had little impact. The discrete transactional model has continued to dominate marketing practice within PSOs.

Finally, clients of the social security system in the UK are mandatory customers of the Benefits Agency – no alternative provider exists. As such the Agency has been encouraged by central government to promulgate a ‘customer focus’ as its dominant paradigm of behaviour. In addition, though, the Agency is also required by government to implement competing policies that challenge the notion of ‘claimants as customers’ (Pheysey 1993).

In this case, the alternative concerns of central government, to tackle the perceived negative impact of the benefit system on the work incentive and to minimize fraudulent claims, produced a competing discourse of claimant behaviour, as ‘workshy’ and ‘fraudulent claimant’ respectively. In this instance, therefore, the preferred marketing model of the agency, which was attempting to design consumerist choice into the system, was challenged by this alternative policy trajectory. Consequently, the limited transactional model of the marketing function employed by the Agency was unable to cope with this level of policy complexity (Falconer & Ross 1999).

These examples throw up three challenges for the future of the marketing function in PSOs. First, that its originating context has constrained the development of the marketing function in PSOs to a focus on micro-organizational debates. This has crowded out consideration of more sophisticated models of the function as a basis for exploring its possible role in shaping the strategic behaviour of PSOs and, by implication, its contribution to policy outcomes.

Second, that the place of marketing within PSOs has become a highly contested one. In VCOs, for example, the remit of the marketing function can often be limited to fund-raising alone, rather than integrated into their strategic positioning activity (Chew 2003, 2006). Similarly, inside governmental organizations, marketing professionals have often had to ‘sail under another banner’ in order to have an impact on strategic direction and positioning (Piercy & Cravens, 1995; Laing & McKee, 2000).

Third, that many of the traditional arguments against the marketing function in PSOs have rested on the assumption that their relationships with citizens/service recipients are quite distinct from private sector relations between organization and ‘sovereign customers’ (Butler & Collins, 1995). What the above examples illustrate, though, is the need for a more sophisticated approach to marketing behaviour by PSOs in the context of the broader public policy forces that shape and constrain their overall behaviour.

Clearly the conventional transactional notion of marketing exchange fails to accommodate such policy complexity and offers an incomplete basis for guiding marketing behaviour within PSOs. What is required are new, policy relevant, models of marketing that can assist PSOs in developing strategic responses to the growing relational complexity of implementing public policy in the plural state. This returns us to the relational approaches to marketing now evolving within marketing theory – but that to date have been little applied to public services management.

## RELATIONSHIP MARKETING.

Within the broader marketing literature it is increasingly acknowledged that relationship marketing (RM) represents an archetypal shift for the profession (Payne & Ballantyne 1993, Sheth & Parvatiyar 2000, Veloutsou et al 2002,). This shift acknowledges that sustainable competitive advantage increasingly requires collaborative activity rather than rivalrous competition, as discussed above, and that relationships are often the most valuable resource of a firm (Sharma & Patterson 1999, Helfert et al 2002). This is the core of RM, that Harker (1999) has defined as an organization engaging in

‘...proactively creating, developing, and maintaining committed, interactive and profitable exchanges with selected customers over time’. (p. 16)

Groonroos (1994, 2000), in seminal papers, has argued that a marketing strategy continuum exists. At one end of this continuum is transactional marketing, rooted in classical economics, and that deals with one transaction at a time. At the other end is RM that focuses upon building relationships. The core of this relationship building is trust. Drawing upon transactional economics, Selnes (1998) notes that,

‘...the importance of trust comes about ...because of the difficulty or impossibility of acquiring information about future events or defining a contract that covers such future events’ (p. 308)

Other authors have defined trust as a ‘willingness to rely on an exchange partner in whom one has confidence’ (Moorman et al 1993) and have, crucially, specified its two core dimensions:

trust in the honesty of a partner to fulfill obligations, and  
trust in the benevolence of a partner to be genuinely interested in your welfare, to be motivated to seek joint gains and not to seek opportunistic benefit.<sup>3</sup>

Trust thus is at the core of RM and both facilitates the adaptation process that is often necessary to complete an exchange within an on-going relationship (Brennan

<sup>3</sup> See also, inter alia, Morgan & Hunt (1994), Lorenzoni & Lipparini (1999) and Gulati et al (2000)

& Turnbull 1999) and provides the basis for mutual commitment that ‘reduces the uncertainties associated with opportunistic behaviour’ in a volatile environment or market (Sheth et al 2000). Given the present emphasis in public policy upon trust as a governance mechanism within the evolving plural state (Davis & Walker 1997, Osborne 2006), it is surprising therefore that RM has not yet made a significant contribution to marketing practice within PSOs – only marginal attempts have been made to use it to develop the marketing function in PSOs. This paper now attempts precisely this task.

## BUILDING THE CONTRIBUTION OF RM TO PUBLIC MANAGEMENT

Within the confines of this brief paper it is not possible to undertake a comprehensive exploration of the potential contributions of RM to public management. Examples of three specific benefits will suffice for our purpose, however.

***Performing in the plural and pluralist state.*** Osborne (2006) has argued that the dawn of the twenty first century has seen the evolution of the ‘new public governance’ in public management, where the negotiation of both plural (involving multiple actors) and pluralist (involving multiple processes) public policy making and implementation is the dominant paradigm. Further he has argued that traditional approaches to public administration and management have failed to provide substantive guidance to public managers struggling to cope with this level of complexity – public administration invariably relegates the actual implementation of public policy to a ‘black box’ that is subservient to the greater task of policy formulation whilst public management portrays the policy process as simply the context for the actual practice of public management. Both views are partial and flawed. RM offers PSOs an opportunity to move beyond these simple bipolar opposites and to engage with the policy process in a way that enhances proactive organizational management.

Morgan & Hunt (1994) have argued that RM actually comprises eight types of marketing activity including the micro, firm – consumer, level (Berry 1983), the macro, firm – firm, level (Arndt 1983) and the meso, firm – society level (Moorman et al 1993). This approach can offer PSOs the tools to move to a new plane of marketing sophistication. The micro level will allow them to explore co-production with the recipients of public services – both an essential element of good services management (Normann 1991, Ravald & Groonroos 1996) and a core component of contemporary public policy in Britain (see for example, Johnson & Osborne 2002). The macro level will provide robust tools for the development of inter-organizational collaboration that allows for both boundary spanning and boundary maintenance elements (Kale et al 2000, Tsai 2000). Finally the meso level will enable PSOs to engage in the policy formulation and implementation process as cognizant actors rather than mere recipients (Ring & Van de Ven 1992, Gulati et al 2000).

***Conceptualizing and managing trust.*** Trust is at the heart of any inter-organizational relationship, including in public services provision (Osborne & Murray 2000; Huxham & Vangen 2000). Often though ‘trust’ appears as a reductive,

self-defining, concept in the extant public management literature. RM allows both a clear conceptualization of it, and its core dimensions, as outlined above, and a dynamic approach to two crucial problems for PSOs within the plural state. The first of these is the 'principal – agent' problem (Vickers & Yarrow 1988). This concerns the asymmetry of information that exists in relationships between two or more parties to a task. At its extreme, the principal to a partnership must employ a range of instruments in order to monitor and control the behaviour of their agent. Within a more relational context, however, both can use their trust in each other to monitor the outcomes of their relationship rather than relying upon costly and bureaucratic performance management systems, with all their implied transaction costs (Waterman & Meier 1998). RM provides a clear basis upon which to build and maintain such trust (Morgan & Hunt 1994, Palmer et al 2000).

The second problem is that of dealing with risk, and its associated costs, in service innovation – a notoriously difficult activity in the risk-averse culture of PSOs (Erridge & Greer 2002, Osborne & Brown 2005). A relational approach based upon trust allows these risks and costs to be shared, minimizing the danger and sharing the benefits of a venture to each party to the relationship. It also allows opportunistic behaviour to be minimized and the dedicated skills and knowledge base of an organization to be protected (Lorenzoni & Lipparini 1999, Kale et al 2000).

Thus, trust is an input into relationship building in the sense that it is at the core of any relationship. No on-going relationship will survive without it. It is an output in the sense that working successfully together in a relationship reinforces and develops further the trust between the parties involved – successful relationships breed deeper, and more successful, relationships (Ring & Van de Ven 1992, Gulati et al 2000). RM allows these processes to be understood and mediated by PSOs. Table I<sup>4</sup> illustrates the inter-relationship between trust and commissioner-provider interaction in public services. Increasingly PSOs are seeking to move towards relational governance, where both trust and interaction are optimized. RM provides a guide to such a positioning strategy. The concept of relational capital, from the

Level of pre-existing trust between service commissioner and service provider	Interaction between service commissioner and service provider	
	Low	High
Low	Market governance: discrete (classical) transactions	Hierarchical governance
High	Market governance: recurrent (neo-classical) transactions	Relational governance

**Table I. Commissioner – provider inter-relationships in public services provision**

<sup>4</sup> This table is a development of that provided by Ring & Van de Ven (1992, p. 490)



associated field of organizational strategy, provides further assistance for these managers.

***Relational capital – the heart of relationship management.*** One of the most significant conceptual tools that RM, and the associated field of organizational strategy, can offer the marketing profession within PSOs is that of relational capital (RC)<sup>5</sup>. Kale et al (2000) define RC as

‘... the level of mutual trust, respect and friendship that arises out of close interaction at the individual level between alliance partners.’ (p. 218, our emphasis)

The key contribution for PSO managers here is to focus upon the import of individuals and individual relationships. Too often it seems that, in the public administration and management field, relationships are reified to the organizational level – the neo-corporatist assumptions of the Voluntary Sector Compact in the UK are a good example of this (Osborne & McLaughlin 2002). The RC approach makes explicit that the key to effective relationship management is to locate them at the individual level, where the staff of a PSO interact with policy makers and service recipients.

From this basis, it is argued that RC is an essential tool for firms to combat organizational deficiencies without needing to grow new capabilities itself. Strategic alliances based on RC allow organizations to pool resources and knowledge with the confidence that they are protected from opportunistic acquisition of their knowledge by collaborators-turned-competitors (Lorenzoni & Lipparini 1999). Moreover, research has shown that around 30%–70% of all partnerships fail (Duysters et al 1998, Park & Ungson 2001, Overby 2006) – and that RC is one of the strongest safeguards against such failure (Morgan & Hunt 1994). Thus partnerships built upon RC become key strategic resources of an organization (Gulati et al 2000).

Most crucially, advocates argue that RC drives organizational performance and enables firms to gain a competitive advantage over its rivals not embedded in such relationships (Kale et al 2000, Tsai 2000, Sarkar et al 2001). The key to deriving this advantage lies in the ways in which the key individuals in firms learn to manage distrust and conflict between their respective organizations:

‘A firm derives its competitive strength from its proprietary assets and will be protective about losing them to alliance partners. Partnerships are fraught with hidden agendas driven by the opportunistic desire to access and internalize the partner’s core proprietary skills... [Relational capital creates] a mutual confidence that no party to an exchange will exploit others’ vulnerability even if there is an opportunity to do so... [This confidence] arises out of the social controls that [relational] capital creates.’ (Kale et al 2000, p. 222)

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<sup>5</sup> The use of the term 'relational capital' within relationship marketing should be differentiated from its use by industrial and regional geographers (such as Capello 2002). In that context it refers specifically to spatial and 'milieu' constructions of relational capital.

Finally the literature also warns of the 'dark side' of RC. Just as it can strengthen organizational performance so it can undermine it, by tying in a firm to an unproductive or damaging relationship (Gulati et al 2000). As a consequence it is essential to manage the creation, sustenance and impact of RC (Sarkar et al 2001, Sawhney & Zabin 2001).

This approach to the marketing activity of PSOs is a major step forward for PSOs. It both provides them with a clear understanding of the actual nature and import of inter-organizational relationships in the plural state and offers some guidelines as to their management.

The task now is to take these important preliminary insights and guidelines and to develop a model of RM that is more firmly rooted in public administration and management, offers real insight to PSO managers about the contribution that RM and RC can make to public services management, and that acknowledges the limitations both of these conceptual tools and of RM in the real world. No concept or tool is an inherently positive. The limitations and dangers of RM and RC need to be explored as well as their positive contributions. Becoming too deeply embedded within a relationship or network can risk being drawn into an unproductive exchange or precluding the opportunity of developing new and alternative relationships (Parkhe & Miller 2000, De Wever et al 2005). The key task for PSO managers, and that relationship marketing may help with, is to be able to make strategic decisions about the extent and nature of organizational relationships – that is, to control these relationships rather than be controlled by them.

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