



Can business learn from the public sector?

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Abstract

Purpose – The purpose of this paper is to challenge conventional wisdom suggesting that public sector entities should learn from the private sector, and to state some potential lessons for business based on case study research in leading edge public sector entities.

Design/methodology/approach – The approach is longitudinal case study research using the interview method and a literature search on public sector management.

Findings – Business organizations can learn valuable lessons from leading edge public sector entities, such as the need to employ technology to reinvent themselves or to support unconventional strategies rather than just support existing processes; to change proactively rather than wait for a crisis; to strive for strategic innovation rather than simply incremental improvements; and to develop a heightened sense of competition to fight inertia and groupthink.

Research limitations/implications – One limitation is the small number of leading edge public sector entities studied here. Further research can include a larger sample, to explore the validity of the lessons stated here, and to derive additional lessons from leading public sector entities.

Practical implications – Business managers should take seriously the potential to learn from leading public sector entities.

Originality/value – The paper provides a challenge to conventional wisdom that public sector entities should learn from business, rather than the other way round, by examining two leading edge public sector entities; Singapore Airlines and the National Library Board of Singapore.

Keywords Learning, Corporate strategy, Public sector organizations

Paper type Viewpoint

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For decades, the public sector has been exhorted to learn from and copy private business practices. CEOs and senior managers in competitive markets, in turn, have discounted and ignored the public sector as a source of learning. Can this philosophy be turned on its head? This is precisely what we argue in this paper.

The public sector is continuously exhorted to adopt models and practices inspired by private enterprise, so that its productivity, customer responsiveness and other competencies can be improved. Such private sector practices include the employment of strategic management models, change management processes, management of quality (Ferlie, 2002), people development, clarifying the role of the center, and engaging performance management (Leslie and Tilley, 2004), or application of lean techniques in operations (Bhatia and Drew, 2006). This approach of adopting and adapting tools, techniques and approaches has become known as new public management (Christensen and Lægheid, 2001).

Global trends of privatization of public sector entities have been one affirmation of this philosophy (Heracleous, 2001), as well as the emergence of public-private partnerships where the enhanced role of the private sector is intended to inject crucial capabilities into carrying out the projects concerned (World Economic Forum, 2006).



There is indeed considerable evidence that, with few exceptions, private ownership is associated with superior performance (Galal *et al.*, 1994; Megginson *et al.*, 1994; Vining and Boardman, 1992). Data from the US and the UK shows that the productivity gap between public and private sectors is significant (Dohrman and Mendonca, 2004). It has not been easy for public sector organizations that have aimed to selectively adopt concepts created in competitive markets (Tan and Heracleous, 2001), but the outcomes have most often been positive and worth pursuing.

Public sector organizations often carry connotations of bureaucracy and inertia. Businesses that develop these dysfunctions, with possibly dire consequences, are often described as having an almost public sector mentality. One example is Ericsson's brush with bankruptcy in 2000-2001 when its clients, telecom operators temporarily halted capital investments due to the high cost of 3G licenses and the dot com bubble bursting (Narayandas *et al.*, 2007). Ericsson had been so used to continuous growth and had geared up substantially for further growth in that period, that cost-cutting and reducing staff count had never been on the cards. It had allowed several organizational duplications and inefficiencies to emerge, and a mentality of almost lifetime employment, that made turnaround even more difficult than it should have been.

On the other hand, in the rare cases where public sector entities that operate in competitive markets outperform their competitors, they are often not even thought of as public sector entities, until someone points out that they are in fact majority government owned. One example is Singapore Airlines (SIA), one of the world's leading airlines that has consistently reported annual profits even during 9/11 and the SARs epidemic. SIA is 52 percent owned by the Singapore Government. These private/public sector stereotypes have persisted, because they have a root in fact. The private sector has indeed delivered more value per resource unit invested. Given this context, it would sound counter-intuitive, nearly laughable to suggest that business has something to learn from the public sector.

Could it be possible to turn the tables on this philosophy? Our contention is that private business has a lot to learn from exceptional public sector entities, whose accomplishments overshadow those of many privately owned enterprises. What these public sector organizations have accomplished is made even more significant by the fact that it was achieved under the constraints of public sector structures and regulations. Their achievements are often akin to winning a swimming race with one hand tied behind one's back. We explore the accomplishments of two exceptional public sector organizations, the National Library Board (NLB) of Singapore and SIA (see the Appendix for information on the methodology). We then highlight what can be learned from these organizations.

National Library Board[1]

The NLB of Singapore is responsible for the public library network in the island city-state. Whereas public libraries around the world are seen as conservative, hush-hush, and often unwelcoming places, the NLB, in the context of a national strategy of creating a learning nation, has worked hard to move away from this image. The transformation process initiated in 1995 has transformed libraries in Singapore from the conventional model of quiet, boring places with declining usage, staffed by librarians often perceived to be distant, to what has now become a global model of attractive, innovative, welcoming places with a six-fold increase in usage over

a ten-year period, in spite of competing offerings by internet sites such as Google Scholar reducing the costs of information search and acquisition.

This transformation process has resulted in highly innovative offerings such as “lifestyle libraries” equipped with cafes, music, and rich multimedia, rock concerts offered in libraries, libraries located in shopping malls, 100 percent self-service libraries, tailoring library formats on different parts of the island to local demands, use of radio-frequency identification (RFID) in conjunction with smart shelves that “know” when a book has been mis-shelved, 24-hour book drops for all libraries, and use of “Library Ambassadors” for media and stakeholder management and creation of “mindshare.”

According to Dr Varaprasad, Chief Executive of the NLB:

NLB had to redefine the market space, remake the image of libraries and of librarians and reposition libraries as the third place after home and work. In other words, the Library should be convenient, exciting and a positive experience for people to go to after home and work to spend time. So when NLB looked at “timeshare”, for example, we looked at how people spent their leisure time. They spent their leisure by going shopping, going to the cinema, surfing the internet, watching TV, playing video games, etc. So we tried to measure the amount of time people spent on these activities and set out to gain both “timeshare” and “mindshare” against these activities. Our approach was firstly to use our mission statement as a marketing tool and secondly to help our librarians not only in their professional competencies but also to position libraries as marketable. In other words work out what they can do for customers, how they attract customers, how they treat customers and how they use technology, and how we use the media to get over our marketing message.

Internally, in terms of human resource practices, the NLB employs such practices as succession planning, executive coaching and leadership development for management, as well as a reward system that has moved away from a historical seniority and entitlement-based approach to a performance-based approach. All customer feedback is monitored and analyzed by quality service managers and transferred to the relevant parts of the organization as a basis for improvement; and also forms an input to the performance management system.

Recent and ongoing developments at the NLB include the development of library resources for specialist groups such as retail investors or small- and medium-enterprises, enhancing the searchability and accessibility of the library content, SMS text messaging service where users can ask any question related to the collection and receive an answer within 24 hours, un-manned book dispensers and book drops throughout the island, the Cybrarian service (a booth at the library where users can make a phone call direct to a librarian for assistance) and the Concierge service (a person who, just like a hotel concierge, can arrange things for you or put you in touch with the right people or resources).

Singapore Airlines[2]

SIA has consistently outperformed its competitors throughout its three-and-a-half decade history, in the context of an unpredictable, intensely competitive industry known for destroying shareholder value. SIA is recognized as one of the world's leading airlines, continuously winning service awards and ranked at or near the top of airline quality rankings. It is positioned as a premium carrier with high levels of innovation and excellent levels of service, having made a strategic choice of giving

priority to profitability over size. Its revenues are around a third of giants such as Lufthansa or Air France – KLM, but its market capitalization is second only to Southwest, because of its consistent profitability.

SIA's strategy involves an integration of differentiation (externally, as far as customers are concerned), with low cost (in internal operations). A usual metric of airline costs is cents per available seat kilometer (available seats multiplied by distance flown), where flag carriers tend to have costs of US\$9 to US\$14 cents, and budget carriers US\$4.5 to US\$7.5 cents (Binggeli and Pompeo, 2002; Doganis, 2006). Singapore Airline's costs per ASK were US\$4.5 cents in 2005-2006, up from 4.2 cents in 2004-2005 and 3.9 cents in 2003-2004[3]. By comparison, easyJet had costs of 6.9 cents per ASK in 2003-2004, Ryanair 4.8, British Airways 12.5, and Lufthansa 14.6. SIA implements certain organizational practices that allow it to achieve this seemingly self-contradictory strategy.

Differentiation is achieved by consistently delivering the brand promise through excellent staff development and attention to detail and seamless execution, a corporate culture where the customer comes first and change is encouraged, an operations strategy of excellent in-flight experience, a young fleet (planes are on average five years old, with an industry average of 12.5), management that are held to account for performance, and an effective innovation system that regularly produces world firsts (such as the Krisworld entertainment system, the "book the cook" service, SMS check-in, etc). How can SIA offer world-leading levels of quality at a cost that characterizes budget carriers?

The young fleet is significant here, since it is more fuel efficient and cheaper to maintain; labor costs are kept competitive through tapping the regional labor markets; SIA subsidiaries are highly efficient through being listed on the stock market with the performance discipline it entails, and through having the mindset that they cannot rely on SIA for their survival; Changi Airport in Singapore, SIA's hub, is one of the most efficient in the world; SIA's cultural values emphasizing cost consciousness; and innovations that not only improve service but also aim to increase efficiency (such as the internet and SMS check-in).

Learning from the public sector

The above two organizations, one local and one global, are public sector entities that, even though they face different market conditions and operate in different industries demonstrate similar orientations and approaches to doing business.

The first lesson concerns technology; not technological sophistication or leading-edge, but rather technology use. Most organizations use technology to support existing processes, attempting to achieve goals such as cutting cost through automation or improving customer service through better communications. These are worthwhile goals but cannot deliver sustainable advantage because they can be easily imitated. In order to make truly strategic use of technology, an organization must employ it to achieve goals that may ordinarily be considered as incompatible, or to re-invent themselves and their industry. SIA uses technology to both increase efficiency as well as differentiation, having achieved cost levels comparable with budget carriers, while being one of the leading airlines of the world. Examples include the young fleet, web interface that is one of the best in the industry, the book-the-cook service, the biometrics check-in, and others. With regard to re-invention, the NLB has

leapfrogged competing offerings and re-defined what the public library industry should be about (using RFID, multi-media offerings, SMS service, self-service libraries, etc).

Second, most organizations undertake strategic change only when they are faced with a burning platform; a visible crisis. In contrast, both these organizations have been changing pro-actively, consistently developing attributes such as a high-performance culture and a heightened sense of competition. How do you develop a high-performance culture in an industry that has been continuously battered by unpredictability and public critique (SIA), or when it is not obvious who the direct competition is (as in the case of the NLB)? Despite their public sector ownership, both SIA and NLB have effectively implemented strategic HRM (developing people in accordance to the strategic goals and the competencies needed to develop the strategy), as well as performance related pay; a practice that is usually difficult to implement in the public sector given the strictly defined pay scales and other bureaucratic constraints.

Strategic innovation is a key dimension of strategic change. In 1972, when SIA split from the Malaysian Airline System to go it alone, it decided that it did not want to be part of International Air Transport Association because the rules about what could be offered to the customer were too restrictive. SIA decided to be positioned as a service excellent, differentiated airline, in an industry where this was unheard of. The tradition of world firsts continued to this day, with the introduction of the A380 and the development of suites in the air, what SIA calls “a class beyond first.” The NLB has redefined both librarians’ as well as citizens’ views of what libraries should be about; not places where librarians safeguard books and tell everyone to keep quiet, but welcoming places for the public facilitating knowledge exploration in an engaging way and for businesses helping create and share knowledge through “knowledge communities.” National libraries of other countries have been visiting Singapore to learn more about NLB’s operating model.

Finally, both of these organizations have developed a heightened sense of competition, avoiding inertia and groupthink, diseases that are as much inherent in the private as well as in the public sector, even as they have had the state as a majority owner. In the case of SIA, the government had made clear from the very beginning that it would not bail the airline out if it did not succeed financially, and that Singapore did not in fact need a national airline. SIA was thrown in the deep end, and in the absence of a domestic market, it had no choice but to be “born global” and find ways to survive in a hostile environment. The NLB has developed a heightened sense of competitive offerings in terms of the concepts of “timeshare” and “mindshare”; it knew that citizens have choices about how to spend their leisure time, and it wanted to be near the top of the list of these choices; even where no direct competition was apparent. How many private sector organizations continuously and critically examine their environment looking for ways to achieve sustainable differentiation, innovate and redefine their industries?

We started by suggesting that the public sector stereotype is one of slow, inward-directed, bureaucratic organizations with relatively low productivity; and that data comparing private and public sector productivity broadly support this perception. We have then shown that some exceptional public sector entities can in fact turn the

tables on this thinking. Despite their public sector ownership, SIA and the NLB exhibit fundamental strategy lessons that competitive enterprises ignore at their peril.

Notes

1. The information and quotations on the NLB case are drawn from Johnston *et al.* (2007).
2. The information on Singapore Airlines is drawn from Heracleous *et al.* (2009).
3. SIA costs per ASK were US\$7.5 cents in 2005-2006, US\$7.0 cents in 2004-2005, and US\$6.7 cents in 2003-2004.

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Appendix. About the research

We have conducted in-depth case study work at the NLB and SIA, aiming to get an understanding of these organizations' strategies, processes, culture, and other elements that contribute to their success. We selected these organizations on the basis of two attributes: first, performance excellence as defined by key stakeholders, and second public sector ownership. Our arguments draw from our understanding of these organizations based on 20 semi-structured interviews at the NLB during the period 2005-2008, and 22 interviews at SIA from 2001 to 2008. These interviews have typically lasted between 45 to 75 minutes, and have allowed us to discuss in detail the strategies and organizational processes summarized in the case outlines.

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