

Transforming a Public Service Organization From Inside out to Outside in: The Case of Auckland City, New Zealand

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As competition increases and customers become more demanding, service organizations are recognizing the need to become more market oriented. This requires developing and being guided by “outside-in” as opposed to “inside-out” processes. However, many organizations are finding this difficult to achieve. Using the framework developed by Day, the authors examine the use of service principles to transform a large public sector service organization so it is more market oriented. The authors examine the catalysts that initiated the change, how the change program was designed, and how it was implemented. Central to the change process was getting the organization to rethink its activities so they were “outside-in.” Resultant changes for staff in their focus and vocabulary brought about improved work practice and more effective customer communication. The performance scorecards showed dramatic improvement in process performance and a substantial and enduring positive impact on customer satisfaction.

The need to become more market oriented is being recognized by both profit and nonprofit service organizations.

However, there is far less agreement among academics, business writers, and practitioners about what the concept involves, and there is confusion about the various terms that have been used to describe it. For example, terms such as *customer oriented*, *customer led*, *market led*, *market driven*, and more recently, *market driving* have been associated with market orientation. Also, although it is generally assumed that market orientation is positively associated with organizational performance (e.g., Deshpandé and Farley 1998; Narver, Slater, and Tiejie 1998), the empirical evidence is somewhat limited. There is also little agreement or clear guidance about what is the best way to bring about organizational change so as to become more market oriented. In particular, little attention has been placed on nonprofit organizations such as those in the public sector.

Since the 1990s, there has been a considerable discussion about market orientation (e.g., Deshpandé, Farley, and Webster 1993; Hooley, Beracs, and Kolos 1994; Kohli and Jaworski 1990; Narver and Slater 1990; Tuominen and Möller 1996). Although there have been differences about the precise definition of the concept, it is generally agreed that it is associated with a business philosophy that focuses

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on the market and the forces that determine the market structure. This involves learning about market developments, sharing this information within the organization, adapting the offerings to a changing market, and creating market opportunity. It provides an organizing framework to develop and implement marketing strategy.

Fundamental to the market orientation concept is broad and creative thinking about market opportunity and how it can be realized. This has been described as being *customer led* or *market led (driven)*, where there is the adaptation of market offerings based on existing customer preferences and/or market structures (Christensen and Bower 1996). More recently, the market orientation concept has been extended to include *market driving* (Jaworski, Kohli, and Sahay 2000), where the organization may also seek to shape the market structure and/or customer preferences and behavior (Hamel and Prahalad 1994). The skills and resources that lead to the creation of a market-oriented organization can be viewed as capabilities (Möller and Anttila 1987), and Day (1994) classified these into those that have an external focus (outside-in processes), those that have an internal focus (inside-out processes), and capabilities that integrate (spanning processes).

During the past two decades, many of the attempts by service organizations to improve service quality have failed to fully embrace a market orientation. This is because the focus has been on developing "inside-out" processes such as financial management, cost control, human resource management, and internal quality management, and not enough attention has been given to outside-in and spanning processes. For example, although customer satisfaction may be monitored, it has not been linked directly to the market and competitors offerings or the internal management processes. Thus, many of the customer satisfaction initiatives in service organizations have failed (Berry 1999; Kordupleski, Rust, and Zahorik 1993; Rust, Zahorik, and Keiningham 1995).

Although the literature provides some general guidelines about how to create market orientation in an organization (e.g., Narver, Slater, and Tjeje 1998; Payne 1988), these are not specific. Thus, it is appropriate to undertake case studies to obtain more specific knowledge and understanding on how to bring about the appropriate organizational change. A recent example of this type of investigation was undertaken by Day (1999a, 1999b), who examined the experiences of the successful change programs in four organizations—Fidelity Investments, Sears Roebuck, Eurotunnel, and Owens Corning. On the basis of his investigation, he identified six overlapping conditions or stages that are necessary to achieve a change program in an organization. These are the following:

1. Leadership and commitment
2. Understanding the need for change

3. Shaping the vision
4. Mobilizing commitment at all levels
5. Aligning structures, systems, and incentives
6. Reinforcing the change

This article examines the actual implementation change program in a public sector service organization to examine the relevance of Day's six conditions or stages. In so doing, it provides a useful complement to lessons learnt from Day's four private sector case studies. It also provides a unique opportunity to examine a successful change program in a large-scale public service organization. The organization that is examined is Auckland City, which is the largest city council in New Zealand. During the mid-1990s, the organization went through considerable change, which led it to becoming more customer oriented.

The article proceeds with a brief description of the Auckland City organization and the differences in management and marketing within the public sector. Next, the catalysts leading to change are outlined, and in the next sections, the design and implementation of the change program using Day's six conditions are examined. Finally, conclusions are drawn about the relevance of Day's six conditions and how they might be modified and added to.

AUCKLAND CITY AND PUBLIC SECTOR MARKETING AND MANAGEMENT

Auckland City is New Zealand's largest city council, responsible for the central business district of Auckland and the more central residential and commercial areas. It is one of the several councils that have territorial local authority responsibility for parts of the greater Auckland area. The Auckland regional council collaborates with city and district councils to look at regional planning, development, conservation, and infrastructural issues. In contrast, city councils are generally responsible for the basic infrastructure in their territories (e.g., roads, sewage, refuse collection, drainage, and water distribution), planning and development (e.g., town planning, resource management, zoning for future development), regulation (e.g., parking, building inspection, liquor licensing), democracy (e.g., councillor representation, consultation), recreation (e.g., sports grounds, swimming pools, libraries, parks, events), the arts (e.g., art galleries, festivals, cultural programs), community facilities (e.g., community centers, community group support), and advocacy (representing Auckland's interests to central government). Auckland City also manages several civic enterprises, such as museums and conference venues, and also seeks to stimulate economic activity in its area. Unlike some city councils in the world, Auckland City does not have responsibility for police or energy utilities.

With such diverse responsibilities, Auckland City is a complex and political organization. Many of the people who work for the organization are highly proficient technically and possess wide experience in managing large infrastructural facilities. Yet, these inside-out capabilities alone do not make a council successful. Auckland City has many different businesses, and many different customers interact with the organization in many different ways. Many public service organizations quite rightly place a high value on technical competence, but this has meant that the outside-in capabilities that were needed to be responsive to these customers have not been well developed.

The marketing and management practices of public sector organizations differ from those of private organizations in important ways (e.g., Lamb 1987; Walsh 1994). Citizens own government organizations, so the expectations for performance are held not just by customers with whom there is an immediate transaction but also by a broader set of stakeholders. Hence, there are higher expectations about fairness, integrity, responsiveness, and accountability. There are also complications from political influence. For example, there may be political pressure to adopt an undifferentiated marketing strategy and to complement rather than compete with the efforts of private sector providers. This means caution is required when applying private sector experience in change programs to the public sector.

WHAT INITIATED THE CHANGE?

Auckland City, like other city councils in New Zealand, is required by law to monitor its performance. This drove initial initiatives to monitor customer service quality, and Auckland City directors set a priority to raise levels of service performance to that comparable with best-practice private sector service providers. However, it was becoming clear that the substantial quality improvement effort that had been in place for some years was not delivering on desired service performance and customer satisfaction results. Concern mounted after a citywide customer service monitor showed that customer satisfaction had plateaued at a "merely competent" level. Some directors began to feel the city needed a quantum improvement in its performance for customers if it was to move from being regarded as competent to great, but they were not decided on how to make this happen. At this time, a city director visited the U.S.-based telecommunications company GTE, which had adopted an approach to service management that it referred to as outside in rather than inside out. This seemed to have potential application for Auckland City.

GTE, like Auckland City, found that quality efforts were not producing the results it desired for customers.

The problem, executives realized, was the way they thought in the broadest sense about serving their customers. Using a simple and clever technique that summarized the orientation of GTE in just three words, they coined the phrase "budget . . . build . . . bill" to describe their prevailing service orientation. In GTE's telephone equipment supply operation, for example, the term *budget* described GTE's well-developed internal planning capabilities for budgeting to build telephone equipment like large exchanges. GTE considered itself very good at building excellent telephone equipment and put considerable focus on continually improving its technical performance to ensure the highest quality product. Billing is obviously a crucial process, and GTE's job costing systems, among other internal processes, were also very good, ensuring that good job margins were maintained. Quality management and reengineering initiatives in the past had ensured that GTE's ability to budget, to build, and to bill continued to improve.

As GTE's search for a breakthrough progressed, people in the project began to realize that the focus on improving process performance did not consider customers nearly enough. They began to call this their "inside-out approach," referring to the way they sought to improve existing processes. They came to recognize that the inside-out nature of what they had been doing, while building technical competency and improving efficiency, was inadvertently meeting GTE's needs but not contributing enough to better meeting customers needs.

The team began to consider where an outside-in approach would take GTE. "Choose . . . use . . . pay" is the phrase that emerged to describe their desired outside-in thinking. In the telephone equipment business, the word *choose* recognized the importance of ensuring that customers have the information and advice to choose the right equipment from a complex set of options. Equally, it is vital that time is spent with customers to help them best use the GTE equipment they have purchased and to find the most effective way to pay for the most appropriate technology. The team acknowledged that in retrospect, past improvement processes had done little to touch these areas of performance. They also began to realize that it was going to be a significant operational challenge to move to outside in from inside out.

At Auckland City, the chief executive was expressing concern about the lack of connection between previous customer research and the strategic direction of Auckland City, as captured in the "outstanding city" vision created at an earlier time but never adopted as a focus for council operations. (The vision held that Auckland would be the outstanding city of the South Pacific).¹

1. Auckland is New Zealand's largest city, totaling more than 1 million people. It is built around two harbors and so has the natural setting to

Although the directors never formally attempted to describe their operation in just three inside-out and three outside-in words, the GTE experience helped them decide that articulating and putting into operation the “outstanding city” vision should be the pivot for achieving breakthrough performance. The project that emerged blossomed into what became known as the Outstanding Auckland project.

The triggers for the change process in this public sector organization differ from Day’s four private sector cases. For the private sector cases, the triggers were financially driven and the survival of each organization in a competitive marketplace was threatened. In contrast, the Auckland City triggers were more political. The statute dictated that as a public organization, Auckland City’s performance required measurement, and the political opportunity arose to demonstrate value of this process to the various stakeholders. Also, management had committed to certain objectives that were not being met. Finally, there was the vital determination of the chief executive to draw on the experience of the private sector organization GTE.

ASPECTS OF THE CHANGE PROCESS

Leadership and Commitment

Day (1999a) described how top managers can signal their commitment and successfully persuade the entire company that its performance can hinge on satisfying customers. Councils in New Zealand have both administrative and political leaders. The Outstanding City project was formally launched by the chief executive, and the process was monitored in such a way that senior managers and staff were left in no doubt about his commitment to, and ownership of, the project.

Project team members were invited to a working session at which the chief executive reintroduced the Outstanding City vision, clarifying that the vision was describing the city of Auckland, not Auckland City, and how the council had to make significant improvements. He signaled that things could not continue in the old way and that incremental change was not the answer. It was firmly pointed out that Auckland City had reached a “glass ceiling,” and what was needed was a new approach to break through this barrier.

The directors, creating a sense of urgency in the organization, consistently promulgated the theme that Auckland

City had reached a glass ceiling. From the political side, the mayor also put an “official seal of approval” to the project by fronting the video that later introduced the Outstanding City concept to Aucklanders. Updates on progress with the project were placed on the highest-level agendas in the organization, once again signaling the intention of senior managers to champion the process.

Reflecting Day’s four cases, the leadership and commitment of the chief executive and senior management were essential. However, an additional dimension for this public sector organization was the political endorsement by senior politicians. The chief executive demonstrated a very strong vision and an ability to motivate and get “buy in” from both the small group of directors and the senior politicians.

Understanding the Need for Change and Shaping the Vision

First, a review of the strategy formation processes at Auckland City was commissioned.² In the review, managers were interviewed about their views on the adequacy of the strategy formation processes used in Auckland City at the time. Among the main findings were the following:

1. The vision statement does not provide a focus for management.
2. The vision, mission, and core values are owned by the council and directors—not yet by managers and staff.
3. Customer orientation is gaining acceptance as a sound concept, but practical adoption has only just begun.
4. Customer studies have been driven by specific projects and technical requirements.
5. The new forthcoming planning cycle of the time is a major opportunity to clarify, and focus on, objectives and activities, and to achieve practical implementation of customer orientation.

A number of recommendations were made and several actions agreed upon, including to (a) develop a focused interpretation of the vision and (b) redefine the functional, inside-out significant activities of Auckland City (more on significant activities later).

At a subsequent directors’ working session, a number of fundamental frameworks were introduced, and several became guiding principles in phases of the strategic review. First, Hamel and Prahalad’s (1989) notion of strate-

be an outstanding city similar to some of the other great harbor cities such as Sydney, Vancouver, San Diego, Stockholm, and Barcelona. Like these other international cities, it has a broad range of ethnic groups from European, South Pacific, and Asian backgrounds, which provides a rich cultural mix.

2. In New Zealand, city councils are by law required to monitor performance and customer service quality. Hence, allocating resources for doing research was an accepted activity for Auckland City. Thus, adequate resources were available for consultants to be employed to do the internal and consumer research.

gic intent was introduced and its relevance discussed as a tool for thinking about how Auckland City could meet its Outstanding City vision. This provided a basis to rethink the way in which the city forms strategy, mobilizes its people, and effects change.

The discussion that followed led to the realization that the Outstanding City vision was for the city of Auckland (the place where Aucklanders live, work, and play) and that Auckland City (the official name for Auckland City Council) was an important, but clearly not the sole contributor to meeting the vision.

To recommit to a vision that sought to create an outstanding place was a fundamental precursor to moving from inside out to outside in. As one of several suppliers to the place (city of Auckland), Auckland City realized that it had to work much harder at its role of leader, facilitator, partner, specifier, and doer. Like GTE, the council was forced by its moving to outside-in to look carefully at its current resources and capabilities. Did it, for instance, have the skill bases to be a leader, facilitator, and partner, when all councils were historically little more than suppliers and doers?

Following Hay and Williamson (1991), the council took a "pathway" or "staircase" approach to strategy formation and implementation in this project. Only the first few steps were planned in detail, because the nature of later steps was contingent on decisions taken earlier in the project. This represented a divergence from the strategic-planning approach formerly taken by the council, in which plans described all steps for the next 5 to 10 years and so were often out-of-date within a year of publication.

As the council sought to develop a focused outside-in interpretation of the vision, it became clear that it was not really sure how its customers would define an Outstanding Auckland in the first place. It commissioned research, which became known as the Outstanding City research. Qualitative research was conducted to generate a list of dimensions of an outstanding city, from which questions for a subsequent survey were generated. One key deliverable from the qualitative research was used directly later in the research. This was the detailed raw list of "dimensions" of an outstanding city generated for each customer group.

The qualitative results were used to develop a telephone survey, and these quantitative results were expressed in charts or what were referred to as "priority boards." These graphically represented the matrix of importance versus performance for the various service activities results. It was evident from the results that Auckland City was regarded as far from outstanding by most of its customers, yet it performed quite well in some areas.

Auckland City managers worked hard to understand the need for change by first identifying priorities using

TABLE 1
From Twenty-Five Significant Activities
to Five Dimensions

<i>1992 Significant Activities</i>	<i>1995 Five Dimensions</i>
City leadership and development	
City leadership	Alive and exciting
City promotion	Clean and green
City planning and regulation	Good for work and business
Harbor edge	A great community to belong to
Property	A place where it is easy to get around
Works and service	
Drainage	
Transportation	
Roading	
Street cleaning and refuse	
Water supply	
Recreation and culture	
Parks	
Zoo	
Recreation	
Central library	
Community libraries	
Art gallery	
Museum	
Aotea Centre	
Civic theater	
Town hall	

feedback from customers and then confronting those realities. Quite extraordinary effort was made by those senior managers and staff workgroups to immerse themselves in the customer research, so that they could translate that information into their own version of GTE's powerfully pithy "choose, use, pay" catch-cry.

To preserve the best inside-out thinking and mesh it with the outside-in view, managers split into two groups for a series of working sessions. The top-down group defined eight strategic goals out of all the dimensions of an outstanding city generated in the research. The bottom-up group explored all the draft pathways generated by workgroups and categorized them into 10 core groups.

Through this process, which mixed and matched the 10 core pathways and eight goal areas, a new vocabulary began to emerge that made even more tangible the new way of thinking. Ultimately, just 5 outside-in dimensions of an outstanding city emerged to replace more than 20 inside-out dimensions that previously described Auckland City Council's roles (see Table 1).

The behaviors inspired in staff by the new dimensions are at the heart of the success of this change program. Teams that were organized along technical lines had to work together differently to deliver on a goal like making

Auckland clean and green. For example, when talking about the meaning of clean and green, a customer in one focus group thought it would be wonderful if her children would be able to wade in safety in city streams, in the way she had done in her youth. For drainage engineers, this creates difficulties because the solution for the customer is likely to mean less efficient storm water drainage. It also strengthens the argument for treating the separation of storm water and sewage as a priority. The parks teams had not had to seriously consider drains and streams as recreation areas. Similarly, the street-cleaning team would not normally think of drains and streams as priorities for cleaning.

The new dimensions proved to be popular with Aucklanders because they were expressed as outcomes they could identify with. They were also popular because of their simple language, memorable phrasing, and practical nature. Ultimately, residents want to get around easily, for example, and are less interested in the means by which traffic and road engineers achieve this, unless it impinges excessively on their routines. What they *see* from the council are communications and plans that are in their language. The promise is that what they *get* is service provision that coordinates better around the outcomes customers desire and so delivers better, more cost-effective results.

Both staff and customers (Auckland citizens) quickly accepted the five dimensions. A very large part of the success of the entire Outstanding City change program can be attributed to the efforts of the management team to create this inspirational focus for attention that feels stretchy yet attainable.

For an organization that wants to encourage new thinking using new frameworks and words can create a definitive break from the old vocabulary. Vocabulary and mindsets are closely associated. For Auckland City staff, even the words *inside out* took on a stigma that made it difficult for people to continue to support that approach without attracting negative attention. Furthermore, multidisciplinary teams were often headed by nonexperts who tended to ask fundamental questions that cast aside traditional inside-out assumptions. That created a culture where no question was a dumb question, further stimulating creativity and quality thinking.

In summary, the Auckland City case has marked similarities with Day's four cases. The understanding of the need for change was market driven, involving feedback from customers and using this to get the managers to confront the reality. The shaping of the vision also had similar characteristics. What was particularly notable about the Auckland City case was the development of a practical, pithy description of the vision that was embraced for its simplicity and good sense. Taking an outside-in approach

makes communication with customers easy. Customers' words are used, the goals of the organization seem more relevant, and believable documents receive much more interest. Bringing the customer voice into the process through research was a fundamental part of the Outstanding Auckland project, as market research is in many projects where the objective is greater customer orientation for the organization.

Mobilizing Commitment

Sponsors of change need credibility and resources to be able to rally supporters and so overcome any resistance to required change. Thus, the members of the management group appointed to see the process through were the recognized emerging senior talent at Auckland City. Their credibility was unchallenged, because of their seniority, their relatively small stake in the status quo, and their intimate knowledge of current practices and shortcomings. In many ways, this small team of about seven people was better placed to effect change than the directors, who were seen to be responsible for shaping the current situation. As described later, the Outstanding City project turned out to be the proving ground for the next wave of directors.

The multidisciplinary work teams used throughout the process added to the success of the project as a whole. A well-respected manager was drawn from one discipline to head up each of the five "dimension" teams, working with functional specialists and other disciplinary outsiders to work out outside-in solutions to situations that had traditionally been approached from inside out. Many organizations unintentionally stifle new thinking. Customer champions with budget and internal legitimacy can continually challenge and reorientate those people who become too inside out. The dimension teams at Auckland City are the primary budget holders and, as specifiers, can bring different functional teams together on a customer problem. In inside-out times, Auckland City used to organize teams around roads, streetlights, traffic control, and parking enforcement. These teams previously did not work together much. Dimension teams bring the functions together on issues that directly affect the outside-in goal of "making it easy to get around" and find new solutions to perennial city problems.

Once again, the Auckland City case has marked similarities with Day's four cases in the way commitment was mobilized, where small groups with the resources and mandate to create quantum change in the face of resistance. For the Auckland City case, a small steering group of experienced senior "high fliers" were used, widely accepted as change makers with no vested interest in the status quo.

Aligning Structures, Systems, and Incentives

Day (1999a) referred to the importance of finding ways to institutionalize a change initiative once it is under way, so that the organization "doesn't revert to its old ways." The levers he identifies as most important, including organizational and process redesign, systems support, and incentives and rewards, were clearly recognized in the Auckland City case.

The initial structure was designed to progress the Outstanding City project. For example, many people in the Outstanding City Group, the senior management group with responsibility for designing and managing the Outstanding City process, were promoted to directorship. This helped ensure that outside-in thinking would not be lost and also sent a powerful message that thinking outside in was a career-enhancing thing to do. The Strategic Study Teams, multidisciplinary groups assigned responsibility for working through the process, reconvened for some time after the project formally finished.

Once the Outstanding City planning process was complete, champions were appointed to represent each dimension. For example, there was a "clean and green" champion. Each champion was responsible for ensuring that the inside-out perspective did not dominate.

Another important change came on the financial side of the operation. The financial systems and budgets, the center point for management at Auckland City, were reconfigured to accommodate tasks and spending by dimension as well as by traditional functional budget area.

Here again the procedures for institutionalizing the change through structure, systems, rewards, and capabilities had marked similarities to the private sector cases. Of particular note for the Auckland City case was the way the "holy grail" of budget holding was reconfigured by embedding dimensions by appointing champions and promoting key change makers to top positions.

Reinforcing the Change

Getting early success, measuring what matters, and celebrating were identified by Day (1999a) as ways of reinforcing change. These were achieved at Auckland City using a system of scorecards developed to measure the progress the council was making toward the status of "Outstanding." The scores were reported publicly. Auckland has since been voted second-best city in the world for quality of living (after Vancouver), as judged by a Swiss study of expatriates living in 200 cities.

Also, early successes that appear to have broken through the glass ceiling were widely publicized among the staff, and this motivated staff to make further improve-

TABLE 2
Examples of Monitoring Performance

	1996	1997	1998	1999	2000
Building consents					
Average time to process	6 days	4 days	4 days	4 days	5 days
Completed in 10 days	87%	95%	100%	86%	89%
Average cost per consent	\$454	\$431	\$409	\$494	\$464
Customers rating excellent	8%	25%	43%	70%	77%
Telephone call center					
Total calls answered (000)	687	843	856	1,003	1,014
Telephone service factor (% calls answered in 20 seconds)	79%	80%	80%	85%	79%
Average speed of answer (seconds)	11	15	15	11	15
Calls resolved at first contact	94%	95%	94%	96%	94%
Customer rating excellent		71%	85%	85%	83%

ments. This also had the effect of the frontline staff developing a positive attitude in the way they interacted with their customers. For example, Table 2 shows the magnitude of some of the operational improvements and the customer satisfaction scores. The average time to process building consents and the processing costs have decreased. However, what is more dramatic is the percentage of customers rating the service as excellent. This went from 8% in 1996 to 76% in 2000. These improvements in customer satisfaction ratings continued to improve even after the operational improvements stabilized. For telephone services, the results were similar with moderate improvements in operational productivity but more marked improvements in the customer satisfaction rating.

Local government in any country is well-known for its susceptibility to massive and regular change in objectives, driven by the political process. Although the thrust of the original Outstanding City initiative has changed somewhat with new managers and new elected members, much of the outside-in perspective remains. There is consistent reference to outside-in dimensions like "clean and green" and "easy to get around in" on signs, in plans, on newsletters, and in public places throughout the Auckland City area.

The parallels with Day's four cases are clear. Successful change was embedded into culture by communicating early wins and monitoring progress. Of particular interest

TABLE 3
Comparing Day's Case Study Companies With the Auckland City Experience

<i>Stage of Change Program</i>	<i>Day's Case Study Companies</i>	<i>Auckland City</i>
Leadership and commitment	Top managers signal commitment and create a sense of urgency	Top-level management and political endorsement and involvement
Understanding the need for change	Always starts with the customer, and then managers confront the reality	Thorough customer research and process of immersion, but anchored to an accepted but poorly articulated vision
Shaping the vision	All employees understand what they have to do and are excited by the prospects, using a point of focus	Developed a practical, pithy description of the vision, which was embraced for its simplicity and good sense
Mobilizing commitment at all levels	Small groups with the resources and mandate to create quantum change in the face of resistance	Small steering group of experienced senior "high fliers," widely accepted as change makers with no vested interest in the status quo
Aligning structures, systems, and incentives	Institutionalizing the change through structure, systems, rewards, and capabilities	Reconfiguring the "holy grail" of budget holding, embedding dimensions by appointing champions and promoting key change makers to top positions
Reinforcing the change	Embed discipline into culture by communicating early wins and monitoring progress	Early wins gave encouragement. Scorecards established to retain outside-in focus

in the Auckland City case was the use of scorecards established to retain an outside-in focus. The combination and balance of internal, external, and customer measures that were used bear noticeable similarities to Kaplan and Norton's (1992) balanced scorecard.

CONCLUSIONS AND IMPLICATIONS

This article has examined the implementation of a change program in a public sector service organization. In doing so, it provides a unique opportunity to examine a successful change program in a large-scale public service organization that became more customer oriented. The Outstanding City experience for Auckland City has reflected many of the issues identified in Day's four case studies and provides further evidence to support the importance of the six overlapping stages or conditions for a public sector service organization.

The Auckland City case highlighted the importance of leadership and commitment among the senior managers. It also demonstrated the importance of understanding the need for change and having the right vision. Change occurred in many different ways. First and most fundamental, there was a change in thinking and the culture—a paradigm shift from inside out to outside in. The shift in thinking also established a positive and constructive creative tension between the proponents of technical excellence (where generally an inside-out view dominates) and the proponents of the customer view, as expressed in the five dimensions (alive and exciting, clean and green, good

for work and business, a great community to belong to, and a place where it is easy to get around). This mobilized commitment at all levels.

Aligning the structures and incentives was also important. Small dimension teams were set up to ensure that the council and its partners give priority to the pathways that will most affect their dimensions. The budgets of the council cut two ways, one across the traditional departments and the other by theme. The dimension teams held most of the budget and therefore called the shots. Finally, the new strategic document became a series of pathways, anchored to the vision through the themes, which evolved and were refined as each new step was taken. Auckland City has achieved improvements in performance as measured internally and also from the customer point of view. These results were used to reinforce the change. More remarkably, improvements persisted in the customer satisfaction ratings even after the internal measures stabilized.

It is clear that the Outstanding City project bears many similarities to those described in Day's cases. Table 3 provides a summary of the comparisons.

The Auckland City case shows that Day's framework provides a good basis for developing a successful change process, and it also highlights some other important factors or conditions that were necessary to develop an organization that has strong outside-in capabilities.

1. As many organizations have found, it is easy to inadvertently improve performance in areas that are not important to customers and so it appears to the customers to be a waste of money. Equally,

improvement might be achieved, but the customer may not notice. GTE became very good at "design . . . build . . . bill," but customer satisfaction did not improve. Auckland City designed some great storm water drains, but these were not noticed. By taking an outside-in view, it is much harder to lose sight of the results that customers want. Thus, customer focus allows for a framework that allocates resources based on the *return on service quality* (Rust, Zahorik, and Keiningham 1995).

2. The voice of the customer needs to be used to frame the project in the first instance. At Auckland City, the search to find out how customers defined an outstanding city, and then to find strategies to deliver on it, provided a constant imperative to keep the customer view at the forefront. In contrast, it is easy to allow inside-out objectives or words to dominate and therefore to fail to allow thinking that is committed to searching out customer insights.
3. The collection of customer information provides little value unless it is used effectively in a process where there is time to do quality thinking. At Auckland City, the people in the Strategic Study Teams were given quite some time to "immerse" themselves in the qualitative information, especially the raw customer information and verbatims. Many senior managers also attended the focus groups. As the strategy formation process gathered pace, managers often spoke of particular people they remembered seeing in the focus groups. For this reason, the conversations in the Strategic Study Teams seemed to be much more about people and not so much about policy and procedure, ultimately ensuring a more outside-in approach.
4. Customers really identify with plans, brochures, and documents that speak their language. Auckland City was applauded for its easy-to-read, straightforward, and commonsense consultation booklet.
5. Allowing the users of customer research to participate in the interpretation of the information can be very valuable, usually much more so than having them pore over a predigested report. The Outstanding City Group (OCG) made the breakthrough itself when it distilled more than 30 customer-sourced strategic goals into five powerful and memorable dimensions that later became the backbone for the Outstanding City Plan. As specialists in improving memory claim, people better remember things that they have created themselves. And, of course, buy-in is greater if participants have been involved and can see their observations reflected in the outputs.
6. Managers of service organizations are frequently subjected to a flow of negative feedback on their

organization. This happens both at work, where they hear about or personally have to deal with complaints and service breakdowns, and privately, as friends and others are happy to tell them about their bad experiences as customers of the company. Negatives are more easily remembered than positives. As a result, many managers are "research shy"—less than enthusiastic about listening to another round of negative anecdotes from hard-to-please customers. Although it is important to hear the customers as they see it, it helps if the customers' voice is also positive, forward thinking, and constructive if it is to bring out a positive attitude in managers. This has as much to do with the way questions are asked as who is asked (Kim and Mauborgne 1998). The qualitative research asked participants to recall great cities they know of and to describe their experiences and observations. Many Auckland City managers were genuinely impressed with the foresight and insights shown by people they imagined would have little to offer. This made easier the task of attaining early managerial acceptance of the research and promulgating an outside-in approach.

7. The final issue is about finding the point in a project when inside out is right, especially in a setting like local government when it is clear that customers know little about the legislative, technical, and budgetary boundaries of what can and cannot be done. One important role of the outside-in approach is to challenge the conventional wisdom of technical specialists about how their tools and resources can be better deployed to get results for customers. Continually improving technical excellence is clearly vital in any organization. But to fail to focus that excellence on outside-in goals and to neglect to use outside-in strategy formation processes that challenge conventional technical wisdom is a recipe for mediocrity and static customer results.

In conclusion, the Auckland City case has provided strong evidence to support Day's framework and the six conditions that are necessary for creating a market-driven organization. Apart from confirming the importance of the conditions, it has added to the description of their nature and in doing so providing further insights into how to manage the change process. Finally, the case raises the important question of whether an organization needs to do an excellent job of managing *each* of the overlapping stages in a change program, as suggested by Day. In today's resource-constrained environment, the management imperative is to be as "fleet-footed" and economical as possible, yet still achieve successful change. What is important is which, if any, of these stages are pivotal and which, if

any, are "hygiene" stages that do not need to have as much focus.

New thinking about the dynamics of service organizations, such as value innovation (e.g., Kim and Mauborgne 1997), suggests the need to focus more on certain key processes and less on others. Auckland City's experience reinforces this notion. Auckland City placed extraordinary emphasis on immersing its managers in the customer research, with the sole objective of creating the high level of ownership and understanding required to formulate just a few phrases that memorably encapsulate the Outstanding City vision. This is generally accepted as the real pivot for the success of the project.

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