

POLITICKÉ VEDY / POLITICAL SCIENCES

Časopis pre politológiu, najnovšie dejiny, medzinárodné vzťahy, bezpečnostné štúdiá / Journal for Political Sciences, Modern History, International Relations, security studies

URL časopisu / URL of the journal: <http://www.fpvmv.umb.sk/politickevedy>

Autor(i) / Author(s):	Masár Dušan
Článok / Article:	Princípy a prístupy marketingu a ich aplikácia vo verejnom sektore / Marketing Principles and Approaches applied in the Public Sector
Vydavateľ / Publisher:	Fakulta politických vied a medzinárodných vzťahov – UMB Banská Bystrica / Faculty of Political Sciences and International Relations – UMB Banská Bystrica

Odporúčaná forma citácie článku / Recommended form for quotation of the article:

MASÁR, D. 2012. Marketing Principles and Approaches applied in the Public Sector. In *Politické vedy*. [online]. Roč. 15, č. 2, 2012. ISSN 1335 – 2741, s. 124 – 136.

Dostupné na internete:

<http://www.fpvmv.umb.sk/userfiles/file/2_2012/masar.pdf>.

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MARKETING PRINCIPLES AND APPROACHES APPLIED IN THE PUBLIC SECTOR

Dušan Masár*

Abstract

This paper discusses the starting points and different possibilities of marketing approaches and concepts implementation in the area of public economics. In the public sector or in the non-profit economy most activities associated with the possibility to use marketing is not connected to customer satisfaction as such, but to citizens. An important particularity of the of public sector organizations functioning is that they deal with the provision of services rather than selling products. With regard to this problematic context market principles and public servants conducted by them are often found in controversial positions.

Keywords: public sector, commercial marketing, public marketing, sustainable development, social well-being.

In the public sector or in the non-profit economy most activities associated with the possibility to use marketing is not connected to customer satisfaction as such, but to citizens. Often there is no direct or indirect form of competition. Having a monopoly or more precisely, an exclusive position in the segment (even more so if it is a public sphere) does not mean that marketing will not be an asset. In the public sector building of goodwill (reputation) of the organization is based in principle on other grounds than in the commercial sector. In the framework of public organizations activities, marketing plays a specific role by serving to meet precisely defined social interests. Again, highlighting a major change in thinking, it is necessary to discern the content differences of the term customer, client and other stakeholders, citizens or groups. This semantic variations of the target segment are important in any content marketing role, because it captures the essence of the differences in the application of commercial (classical) and public marketing. Definition of marketing which best suits the purpose is: "Marketing is the management process responsible for identifying, anticipating and satisfying the requirements of stakeholders and thus serves to facilitate the attainment of organizational goals." (Boone - Kurtz,

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1998) Various functional models of the public sector institutions functioning use for achieving the target objective the communication of ideas, values and benefits of those public services that the public sector offers. Communication in the public marketing is a key for effective implementation of the plans. In the framework of commercial companies there are two basic types of communication - managerial and marketing. Managerial communication provides performance of management functions (planning, organizing, decision making and control) by the management with the internal and external stakeholders of the working relationship. Marketing communication is directed to either customers or citizens. Organizational part of the firm and public institutions management includes all communication within the organization and development of Public Relations (PR). Frequent extension is the environmental range of communication and relationships with potential investors. Effective, i.e. persuasive communication involves all components of marketing in the form of marketing mix elements.

An important particularity of the of public sector organizations functioning is that they deal with the provision of services rather than selling products. However, there are several differences concerning public marketing. Part of the functioning of modern economic systems (mixed economy) is the existence of the so called public sector, which performs those functions in the state that cannot be wholly or partially transferred to the private sector. This is an area of national security, the defence, government and public administration (executive), jurisdiction, public health and education, public transport (accessibility) and part of the culture. The non-profit sector is not only important because of its size, but also because it manages and affects the running of the entire company, provides essential services, let us say social service, through its institutions. In these institutions marketing activities do not belong to the traditional ones, which is partly due to their non-profit nature and also due to the specificity of the services offered, which do not have the character of common commercial products. Due to changes in the financing of these institutions and the increased competitive pressure in the public sector, there are also questions being raised as to applying some of the marketing approaches in regard to the satisfaction of citizens. In the private sector the customer is the one who is willing and able to pay for a product; in the public sector it is a person that uses a service who is either charged, or more often the provision of services is funded (subsidized) by public budgets and other resources (public collections, etc.). Again, it is important to emphasize the differences in the expected

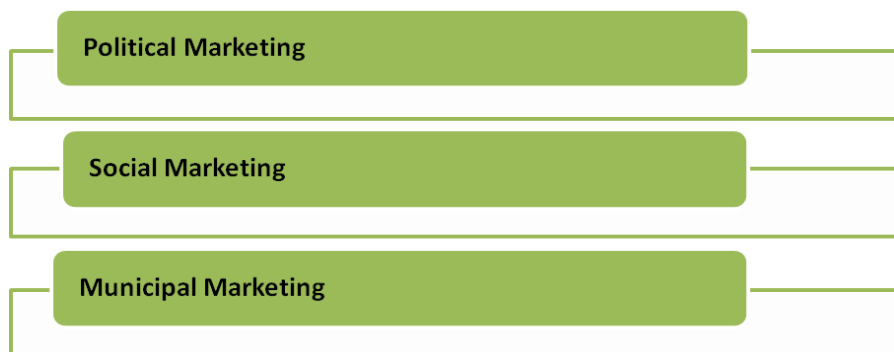
behaviour of the customer and citizen. Marketing is fundamentally associated with profitability and competitiveness. The key question, therefore, is: "What should be the role of marketing in the institution or organization where profitability is not the motive of its operation?" The main objective of such operation is also declared, i.e. that of satisfying or serving the citizens or public.¹ Analysis of the status of non-profit organizations in the market compared with other actors is different due to the object or their activities or mission. The authors that are dealing with the issues of marketing in the non-profit sector must take into account its different priorities. "Analysis of profit and sales is usually less important than the evaluation of image and customer care, but nevertheless remains a valid factor in the control system." (Hannagan, 1996) Particularly important is the fact that the competition here has got strictly limited importance. For example, if the university cannot get the sufficient number of students in regard to population development and the number of competing providers of education, it should not adapt to the situation by reducing the level of education in order to maintain the needed number of students. It is extremely counterproductive to speak about competitiveness in this sense. Any marketing plans of public or private schools should be aimed at provision of quality education. They are set up in the society to guarantee the education by securing of acquired educational qualifications of graduates.² Generally, it can be said that the idea of effective functioning and satisfied customers, translated into marketing approaches used by public organizations (which respect the specificities of the public sector) can find a positive response.³

¹ This may also include the telephone lines of trust, security for children and other similar activities normally provided free of charge.

² Long-term underestimation of the level of institutional education in Slovakia is currently one of the causes of crisis in society due to inefficient spending of public funds on the one hand, and an increase in structural unemployment on the other. "In accordance with the principles of institutional autonomy primary responsibility for quality assurance in higher education lies with each institution and that is the basis for real accountability of the higher education system within the national system for quality assurance." (Berlin Communiqué of Ministers of Education Summit on 19 9th 2003) For years we have been confusing the term "educational growth level" with the increase in the number of schools and their graduates. Demand on the labor market for university "qualified" professionals - analysts, economists, lawyers, educational social workers and other experts of the social sciences are in direct link to the current unflattering situation.

³ No one will certainly complain if the costs for the ensuring of institutions, offices, schools, and hospitals running would be cut while increasing service quality. But it is undoubtedly a complex problem and we cannot believe that marketing is able by itself to provide such a thing.

Marketing theory in public administration and public policy provides the possibility to form types of the so called Public Marketing:



Source: processed by the author

Political marketing is, generally speaking, a method of political communication and application of marketing principles and procedures in political campaigns with the aim to influence the public opinion.

Social marketing is a specific area of organizing socioeconomic relations, either by state authorities or by the third sector. Marketing tools can use the so called non-profit organizations of the third sector working in the imaginary space between the state and citizens. They contribute to problem-solving and making trade-offs between different groups in society, as well as advert government officials, authorities and institutions on citizens' interests.

Municipal marketing is operating at the level of municipalities that are fulfilling their functions. This type of marketing can also be found under the terms territory marketing or city marketing, depending on its implementation.

Marketing applied through marketing mix by commercial enterprises is fundamentally different from the marketing of public organizations. According to **Cowell** (1984), the relative dominance of intangible attributes in the performance of professional duties is an important feature in the provision of public services. Consequently, staff in public services is expected to have special knowledge and special marketing skills. Intermediate public service employees are just as important as the service itself, and the interactions between providers and recipients are extremely important. Organizations oriented on provision of public goods are primarily engaged in managing

relations between the citizens and the workers. This activity is part of the process of obtaining, maintaining and improving relationships with target groups. Most of the services offered in the public sector can be essentially offered in the same way, whereas in the private sector a differentiated approach is generally required. "Outstanding performance is the result of providing quality customer values and not an objective in itself." (Slater, 1997) Theoretically it is possible to formulate the proposition that marketers achieving long term high quality focus on creating commercial and social value for customers, and not exclusively on profitability. Profitability pertains mainly to the private sector. In the public concepts an implicit hierarchy of preferences is at work, which can be created to address the interests of stakeholders in the pursuit of the partial objectives. These pitfalls of marketing exposure faced by public sector managers are entering the scene at the moment when dynamically growing public sector in various European countries begins to see its potential as citizens in the target segments. The power of using marketing tools and strategic marketing planning in relation to citizens started to be perceived (Cousins, 1990). Public institutions according to most authors use four types of marketing approach, which differ from each other in the declared objectives. (Chapman - Cowdell, 1998); (Burton, 1999).

Scheme No. 2 Types of marketing approaches in public sector



Marketisation focuses on those aspects of public sector activities that are similar to the classic, i.e. commercial marketing used in the private sector. It is subordinated to the competitive forces of the “invisible hand” determining the conditions of operation of the market. The aim is to reduce the expensiveness and adapt the quality to the requirements of citizens.

Socialization is the social sciences process of social learning, in which the individual acquires the culture of a company formed as a combination of social being and individual personality. It allows the individuals to become social beings as well as individual personalities and full members of society. Socialisation is not just a process of adaptation of an individual to social interests. It suggests that public organizations use marketing of stakeholders to ensure adequate existence of people with the support of society interests.

Municipalization is an issue of undertaken decentralization in the operating system of the public economy. Fragmentation of settlement structure is an important determinant of competitiveness associated with the territorial and local institutions. In this instance marketing is used to support the functioning of running cities and municipalities with regard to the improvement of the quality of public goods provided at the municipal level.

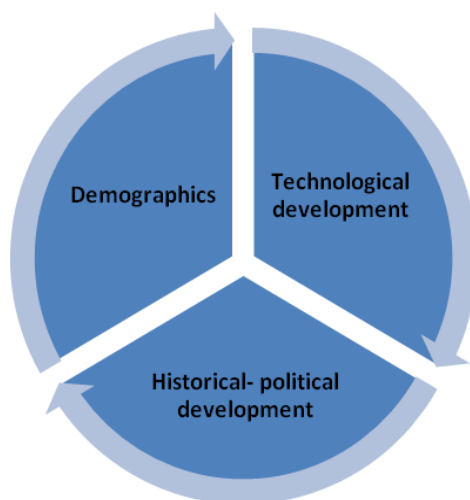
Politicization is a systemic effect of the company functioning, using tools for the implementation of key policy objectives including the implementation of social effects. Public policy in this context analyses the formation and promotion of public interest in the public sector. Politics as such mediates, moderates, and interferes in the processes of adoption and implementation of social plans. State and public administration as a proprietor of tools incorporates routine, repetitive activities within the designated regulations. Public policy is the creator of social welfare institutes and public interests enforced by the public sector institutions. The main problem is setting the level of politicization of public administration and, consequently, the closely linked and ever appearing dilemma or the request of its de-politicization.

When applying any type of marketing approaches in the public sector, marketing skills acquired in the private sector can serve as a positive inspiration. The council of a city or municipality may provide a “range” of public goods consisting of product categories of operating kindergartens, garbage collection, public events and so forth, with identical marketing techniques as in the private sector. Market research, graphic design, presentation and advertising can be created to convey that “homemade” and retail marketing

skills can be applied while respecting local customs. Raising awareness of existing or planned services among potential users of these services is a priority for most public sector organizations.

In the models of building the so called “welfare state” this “non-profit” agenda is sharply increasing in importance. Causes of growth of public sector are based on the so called Wagner Act. **Adolph Wagner** was a German economist, a representative of the so called Bismarckian financial policy. In the 80s of the 19th Century he introduced “the law of increasing public expenditures” to the professional community. He shrewdly anticipates the trends that were to appear about 50 to 100 years later. He suspected that the development of modern industrialized society would gradually result in political pressure for social change. That, in turn, requires paying more attention to the “social context” in the management of economy. Taken together, as a result of these developments the constant expansion of public sector growth and its share in the national economy can be anticipated. This Act sets out a hypothesis that the development of industrialized economies is accompanied by an increasing share of government expenditure in relation to GDP. In a quite revolutionary way this Act stated that the public goods provided by the state will be in the future in great demand. Aggregate demand for these services will rise with income, while this rise will be faster than the rise of the income itself. Economic development will be accompanied by the growth of industrial monopolies, causing a need to strengthen the regulatory functions of the state. As we see the development is moving exactly in accordance with **Wagner’s** hypothesis of the growth of public expenditure share in relation to GDP. Nevertheless, **Wagner’s** act is often criticized, that it is not based on theories of state behaviour as an economic, legal and social entity but it is only a statement, based on historical arguments. Contemporary economists argue that the growth of public sector expenditure expressed as a share of GDP is a completed process. Attention should focus on the share of government expenditure in total expenditure and the act of rising public expenditure should be defined in terms of increasing share of the public sector (Musgrave, 1994). Modern post-industrial society is characterized by decisive share of public sector and profound technological changes. This type of economy associates the public sector with much more complex cost structure than stated by **Wagner**.

Scheme No. 3 Causes of the growth in public spending

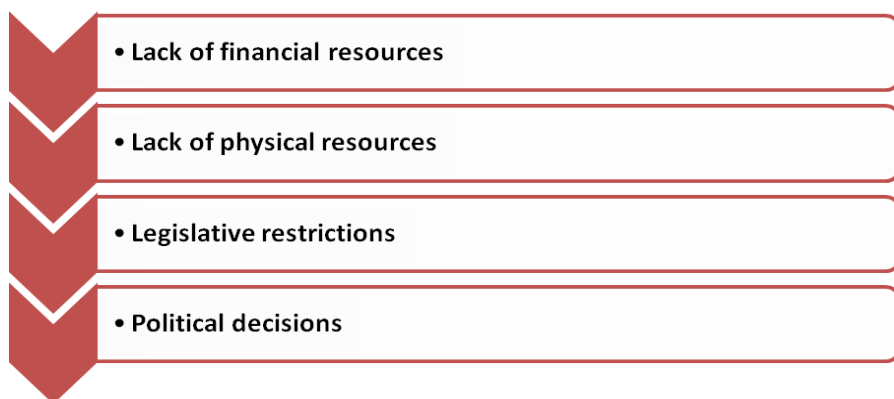


Funding encompassing the marketing strategy items allows public institutions to manage their activities in accordance with the trends of orientation on citizens' expectations. Due to this fact setting the priorities is useful for meeting the requirements and public expectations. If the portfolio of services provided to residents (leisure-time activities, educational activities, recreational activities, administrative and social services) is performed by a local authority effectively and quickly, the expansion of public funds is justified. Another important priority for local governments is a communication with the citizens it serves. People expect local authorities to discuss and act on their behalf or even protest on their behalf, especially when there are threats in the form of externalities such as planning or construction of new highways or other projects that affect their lives.

The current social climate puts pressure on public, i.e. non-profit sector, bringing about the need to improve its performance. **Kotler** and **Zaltman** (2001) speak directly about improvement of marketing practices. As we know, given the many political and economic complications the use of public sector marketing in this environment is more difficult than in the private sector. A good example of using a marketing approach in this area may be the effort of city / municipal councils to move closer to citizens in terms of informing the decision-making

processes within the scope of governing and administering the city / town. This can lead to an objective improvement of relations of stakeholder and perception of the quality of public services. There are several ways to achieve this. The easier solution for the council is to enter the in-depth market research to ascertain the views of people regarding the administration of the local government. In these surveys it is regularly shown that about 80% of the residents welcome such formal municipal policy in which they may be involved at least as a specific form of control. Residents express their attitudes especially in areas related to the so called green issues. Working model of local authorities is to regularly carry out audits on key agendas. In the past the representatives of the public sector focused more on the way of how are public services provided in comparison to the views of end users. Even nowadays the public administration often does not care about peoples' opinions. Especially after the election the interaction with the citizen gets into the background. Notions of citizens suddenly become outdated and so called "unprofessional". Representatives of governments begin (often with arrogance of power) to believe that they know best what people need from their professional perspective vision (Bean and Hussey, 1997). The public sector is under principal pressure regarding the effectiveness of public service provision. Those public services which is the public sector obliged to provide under the law may not always be able to fulfil the criteria of citizens expectations.

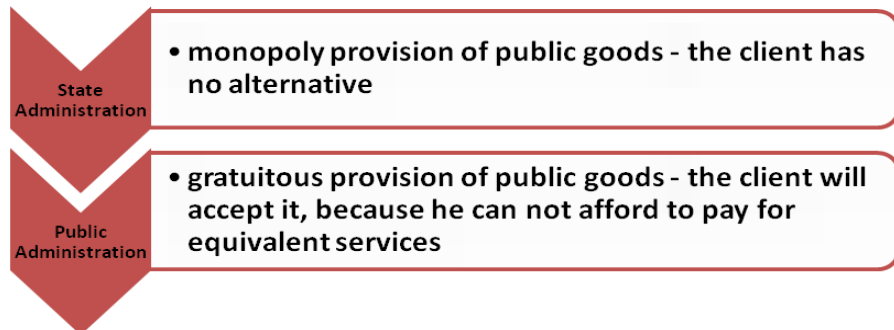
Scheme No. 4 Barriers to the provision of public goods



Source: Bean and Hussey, 1997; processed by the author

Another significant problem is the sign of the public sector functioning – it has to do with something that is fundamental for marketing concept: always and at any “price” to respect the customer / client / citizen. Commercial space glorifies the rules that “our customer is our master” and “customer is always right.” In the public sector this principle is often limited or even excluded. “Ignorant” citizen can be confused and often has to accept the public sector institutions as a system authority. Not to mention the professional qualifications and competence of employees in state government guaranteed by the state, regardless of whether the citizen endorses their conduct or interpretation of the solutions to problems or not. Most of these entities provide public services which are often limited in nature and subject to social control. In number of cases the user is far from satisfied with public services. Unlike in the private sector, “survival” of public sector institutions is generally independent on the users. Their existence is determined by legislation or resulting from government policies and the like.

Scheme No. 5 Reasons for the establishment of public sector institutions

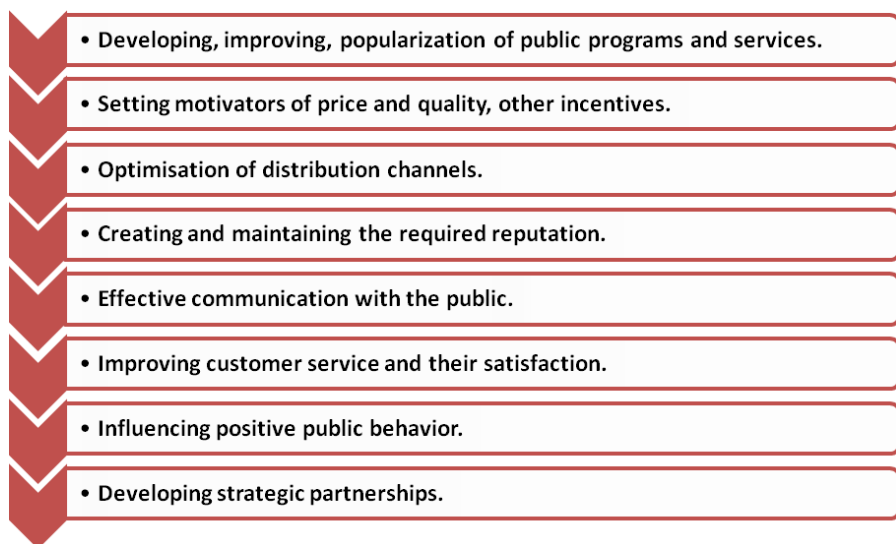


In recent years we observe changes in the legislative amendments in order to build an effective and from the perspective of public finance sustainable model. These efforts brought concepts reflecting the competitive commercial sector practices previously significant only in the private sector also to the public sector. This caused the gradual formation of the public interest spheres and establishment of competitive culture or competitiveness in them. It should be noted that the concept of competition there is different and conflict of interest is not based on market principles. The public providers are expected to respond to

the needs and expectations of civil communities. As a result, public providers cease or should not be in the role of competitors in terms of market and its “customers” dominance. Imaginary “labeling” of market-led orientation with reference to the competitiveness of these entities is factually and content inappropriate.

This does not mean that marketing principles cannot be used in the public sector, but problems may occur with the provision of services built on pure market principles. Many authors dealing with the matter in question propose solutions with reference to the proposition that market principles can be applied in the public sector. It is assumed that the market is efficient and reasonably well distributive mechanism for distributing goods and services of the public sector. **Mellors** (1993) correctly argues that the term “public good” and “public interest” remains problematic in adopting market-based solutions to the provision of public goods. With regard to this problematic context market principles and public servants conducted by them are often found in controversial positions.

Scheme No. 6 Market factors of the public sector institutions efficiency increase



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