

Accountability in Public Services: Exit, Voice and Control

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Summary. — This paper argues that the positive impact of public accountability on public service performance and governance in general can be augmented by moving away from an exclusive reliance on control mechanisms such as hierarchical monitoring and use of organizational incentives to a system that uses “exit” or “voice” mechanisms in conjunction with control. Whether the public will resort to exit or voice will depend on the relative costs associated with these options and the expected value to them of the performance improvement resulting from their use in a specific context. Public services can be categorized in terms of the exit and voice potential they afford the public by reference to certain barriers and characteristics. The paper provides a framework for the analysis of the features and barriers of public services and of the publics involved that can be used to predict the potential for the use of exit and voice in specific service contexts. A menu of options for improving public accountability through the use of exit and voice mechanisms and their policy implications are also presented.

1. INTRODUCTION

Recent years have witnessed a growing dissatisfaction with the performance of services with public good characteristics in many developing countries.¹ While several factors have contributed to this phenomenon, one that has attracted much attention in the literature is the relative lack of public accountability in some of these countries. Developed countries too have faced similar difficulties, but seem to have had greater success in finding innovative ways to improve public service accountability (OECD, 1987a). There is a growing realization that the approach to accountability in developing countries must be improved significantly to enhance the efficiency and effectiveness of their public services and “governance” in general.

Accountability means holding individuals and organizations responsible for performance measured as objectively as possible. Public accountability refers to the spectrum of approaches, mechanisms and practices used by the stakeholders concerned with public services to ensure a desired level and type of performance. Its effectiveness will depend on whether influence of the concerned stakeholders is reflected in the monitoring and incentive systems of service providers.² The phenomenon of capture — the tendency of the stakeholders who manage

and control the allocation of public services to appropriate service benefits and to engage in rent seeking — can be an important barrier to the improvement of accountability in developing countries. Capture of public services government monopoly of many public services, the limited capacity of the public to demand and monitor good performance, and the problems in measuring and quantifying the benefits of services, make the improvement of public service accountability an especially complex and difficult undertaking.

The purpose of this paper is to present a conceptual framework to analyze the problem of public service accountability and to identify alternative ways to strengthen it. The traditional public accountability mechanisms such as expenditure audits and legislative reviews seem unequal to the task of ensuring accountability for public services at the micro level. To be effective, government-wide accountability systems need to

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be reinforced by new accountability devices for specific services. A promising approach toward this end is explored in the remaining sections of this paper.

The analysis in sections 2 and 3 shows that the public's use of "exit" (competing sources of supply) or "voice" (participation/protest to induce service providers to perform) will enhance public accountability in a given situation when it is consistent with the characteristics of the services and of the publics involved. An understanding of these characteristics can be used to predict the potential for the use of exit and voice in specific service contexts. It is further argued in section 3 that public service accountability will be sustained only when the "hierarchical control" (HC) over service providers is reinforced by the public's willingness and ability to exit or to use voice. This is because the only way the behavior of service providers can be made more responsive to the public is through the signals from the HC function (e.g., monitoring and incentives) of the agency. When the incentives facing public service providers are wrong, the latter may continue their "quiet life" despite the exit or voice actions of the public. These propositions challenge the conventional wisdom that competition on the supply side (facilitating exit) or public participation (use of voice) at the micro level alone are adequate to ensure the accountability of public agencies.

2. DETERMINANTS OF ACCOUNTABILITY: A CONCEPTUAL FRAMEWORK

The evolution of public accountability systems in many countries reveals three interesting features. First, the original thrust of government accountability to the public rested with the political leadership at the macro level (Jabbara and Dwivedi, 1989). Attention to accountability as a means of controlling the behavior of individual civil servants for public services is a relatively recent development. Second, the focus of the key instruments and measures used to effect public accountability has traditionally been on inputs and not on outputs. In most cases, the latter tend to be diverse and too complex to measure. On the other hand, public expenditure which is an input and a common denominator can be easily measured and audited. Internal decision-making processes can be assessed as there are generally uniform norms about their use within government. Third, at the macro level, governments tend to enforce accountability in a top-down fashion. Political leaders, agencies

and bureaucrats act as proxies for the public and hold those reporting to them accountable through control systems within the relevant public organizations. With the expansion of the public sector, macro level accountability systems have become overloaded. As argued below, this overload can be offset by the use of accountability mechanisms at the micro level with a focus on the public as "customers to be served."

(a) *Determinants of accountability*

Viewed from the standpoint of the public, there are two basic factors that influence accountability. One is the extent to which the public has access to alternative suppliers of a given public service. The question here is whether there is potential or scope for the public to *exit* when dissatisfied with a public service. The second is the degree to which they can influence the final outcome of a service through some form of participation or articulation of protest/feedback irrespective of whether the exit option exists. In other words, can they exert their *voice* in order to enhance accountability? Exit and voice are terms that Hirschman (1970) made popular in his excellent discussion of the ways in which consumers cope with the problem of performance deterioration in the production of goods and services.³

The analytical framework presented below builds on Hirschman's concept of exit and voice, but with an exclusive focus on public services. Two interrelated questions will be explored here. Under what conditions are the exit and voice options likely to be efficient in enhancing accountability in public services? How and why do public services differ in their amenability to the use of exit and voice as a means to improve their performance? Answers to these questions are essential for designing better approaches to public service accountability.

Figures 1 and 2 use standard cost-price analysis to provide a simple, but generalized answer to the first question.⁴ They demonstrate that the public's decision to use exit, voice or a combination of both will depend on two factors, namely, the expected returns resulting from improved accountability (e.g., better quality, reduction in delays and corruption, responsiveness or other attributes that the public value, etc.), and the costs associated with the use of exit and voice. A person will resort to exit (e.g., moving to another service provider) only if the cost he or she incurs in the process is less than the gains from the improved service. The same logic applies to the use of voice. The relative costs of exit and voice

and their levels may vary depending on the degree of market failure affecting the services.⁵ In Figure 1, costs and returns are measured vertically while public services are ranked horizontally according to the increasing intensity of market failure.⁶

Assume that the public is willing to use exit and voice to improve public accountability. *AB* represents the cost of exit associated with each of the services on the horizontal axis and incurred by an individual (a member of the public). *CD* is the cost of voice estimated on a similar basis. Although the cost of voice is often incurred in a group, each point on the curve could be treated as the individual's cost of voice. Both *AB* and *CD* are upward sloping curves because it costs more to a person to resort to exit or voice as he or she moves to the right toward services that are increasingly affected by market failure (e.g., natural monopolies such as electricity, water supply, etc.). As expected, for the public, voice costs more than exit for the range of services facing competition, but as market failure increases, exit becomes more costly than voice. The cost of exit is clearly more sensitive to market failure than the cost of voice. For example, the cost of creating an alternative (exit) in the face of a natural monopoly will be enormous. The cost of organizing the public to seek changes from the monopoly (voice) will also be substantial. But even the cost of voice tends to go up as the information asymmetries associated with market failure increases along the *Y* axis. Figure 1 shows that the public services within the range of *OK* will find the use of exit more efficient for improving accountability whereas the services to the right of *K* will find voice more efficient. When city transport services permit

both public and private options, the public will tend to use exit, while faced with urban water supply problems the public is more likely to resort to voice.

Figure 2 shows that the public's decision to use exit or voice will depend not only on their costs, but also on the expected value or returns from performance improvement derived from improved accountability. It is the *net returns* from the use of exit or voice that matter to the public. *EF* represents the expected returns to the individual of such performance improvement for a given level of cost of exit or voice. Its declining slope signifies the increasing difficulty in improving accountability as market failure increases. A monopoly, for example, is expected to be less responsive to public pressure. An upward shift in the expected returns curve can occur, however, when supervision or incentives (hierarchical control) are strengthened to make the service provider more responsive.⁷

Given the exit and voice cost curves, Figure 2 shows that the combinations of exit and voice that are efficient for different goods will vary depending on the level and slope of the expected return curves. Thus when returns are represented by *EF*, both exit and voice yield net returns along the range of *OK1*. Nevertheless, exit is clearly the more efficient option as its net returns exceed that of voice in this range. Within the *K1M1* range of services, voice is the superior option though up to *M1* exit continues to yield net returns. For services beyond *OL1*, neither exit nor voice seem efficient solutions though an upward shift in the returns curve can reduce their number. Public services can thus be partitioned into three categories by reference to the net returns to performance improvement generated

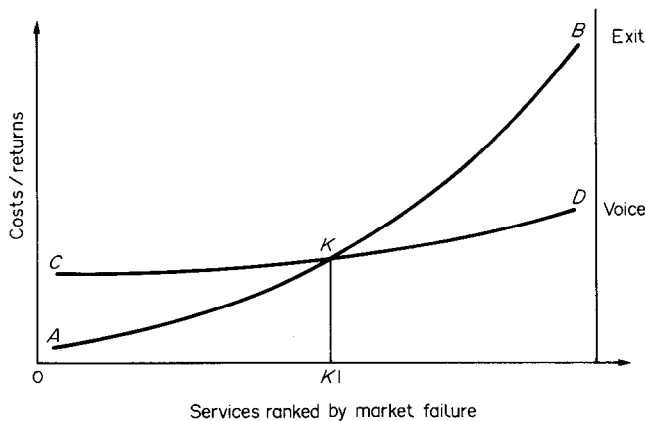


Figure 1. Costs of exit and voice.

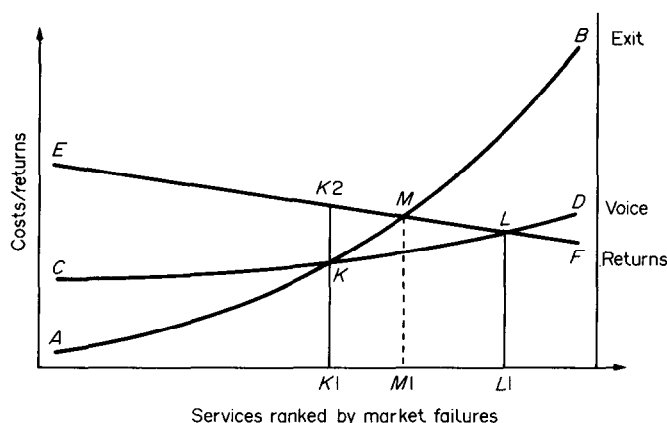


Figure 2. *Optimal use of exit and voice (for an individual).*

by the use of exit and voice. Within the range $OK1$, exit yields higher net returns and hence is more efficient than voice. Within $K1L1$ voice is more efficient than exit. Beyond $L1$ neither is efficient as net returns are negative.

Four propositions follow from this simple diagrammatic presentation. (i) Exit is more efficient, and hence more likely to be used in services least affected by market failure whereas voice is relatively more efficient as market failure increases. (ii) For many services, either option or a combination of the two will still leave some net returns and therefore the choice may depend also on the preferences of the public for different combinations. (iii) The level of expected returns has a direct bearing on the extent to which voice will be deployed especially in the range of services most affected by market failure. In other words, the public is likely to use voice only when there is a high probability that the public sector will be responsive and make this investment worthwhile. (iv) There are some public services for which the use of neither exit nor voice mechanisms will be efficient. These are the services most affected by market failure.

We now move on to the second question and explore the variables that influence the scope for exit and voice in the context of different types of public services. This takes us beyond the aggregative approach of Figure 2 which considered services solely as a function of market failure and the public as an undifferentiated lot.

(b) *Exit determinants*

(i) Economies of scale are important in the production of many public and quasi-public

goods. Natural monopolies with increasing returns to scale are well-known examples. In a country or a geographical area where there is scope for only one enterprise or agency to produce and deliver a service, the public's potential for exit is limited or nonexistent, and hence exit cost is high.

(ii) Legal barriers to entry may exist in a country which limits the public's scope for exit. Registration of vehicles and trade controls can be viewed as legal barriers which the public cannot escape unless illegal action is resorted to. This is because the state prohibits by law other suppliers from delivering a given public service though there is technically no reason why others cannot supply the same service.

(iii) Spatial barriers may limit the potential for exit for some segments of the public. Here the problem lies not in the nature of the good or service but in the characteristics of the public. Thus there may be scope for only one small school or health clinic in an isolated village. The constraint is not the existence of scale economies, but rather that certain features of the public (e.g., location) limit their potential exit.

(iv) Where the nature of a good or service is such that no member of the public can be excluded from access to it, then exit by definition is ruled out. Pure public goods such as defense or environmental protection are classic examples.

(c) *Voice determinants*

(i) Legal and institutional barriers to voice may exist in a country thus making it difficult for segments of the public to use their voice. In some

cases, this could be traced to the nature of the larger political system or ideology. Even where an open or democratic political system exists in a country, its laws and legal and institutional devices may not permit or may constrain the use of voice (e.g., legal barriers to the recognition of user groups, lack of public hearings and denial of the right to sue public service suppliers). It is possible that nothing is wrong with the laws, but the procedures and practices used in their implementation stifle or delay the use of voice.

(ii) Informational asymmetries can be a severe constraint on the public's use of voice. Service providers often possess information that is not available to the public. Governments may restrict the public's access to information or limit the scope for the media to challenge or publicize the poor quality and other attributes of services. Dissemination of information may also be limited by the poor technologies (e.g., poor telecommunications) available in the country. Those who have privileged access to the relevant information on services such as elite groups may take advantage of it at the expense of others.

(iii) Nondifferentiation of public services can aid the use of voice under certain conditions.⁸ A quasi-public good such as drinking water and public parks are nondifferentiable products. Since all segments of the public have an interest in their supply and quality, those with a weak voice also gain from the voice of the stronger segments of the public (Wade, 1988). Nondifferentiation of services thus creates an "externality" effect on voice. In the case of education, for example, it is possible to differentiate services (schools with varying quality), and hence the externality effect does not obtain.

(iv) Income, education and related attributes of the public increase their ability to use voice. Even when information is available, lack of education may limit its proper analysis and use by the people. The cost of voice can be too burdensome for low income people. Lack of knowledge and skills constrains them in their assessment of options and in demanding better service or access. The poor and illiterate, therefore, are usually the weakest in respect of voice, though their numbers may be large.

(v) The relative importance of a service to the public also influences voice. Thus if a person spends a significant proportion of his or her income or time on a service, or develops a continuing relationship with the service provider ("product involvement"), the incentive to use voice is greater than when the service is of little consequence or is not durable in terms of future relationships or benefits.⁹ This is true even when the individual has an exit option. Examples

are housing and health services (doctor-client relations).

The foregoing discussion of the factors underlying exit and voice shows that both the nature of the good or service and the characteristics of the public exert an important influence on these options. Natural or artificial (policy-induced) monopoly turns out to be an important attribute of many public services (e.g., electricity, regulatory services) that tends to limit the public's scope for exit. The ability and willingness of the public to respond to this condition through voice can in part be policy induced, but are also a function of certain attributes of the public (e.g., income, education, location, etc.). In the final analysis, the factors identified above influence the costs facing the public and thus their choices between the two options. For example, if spatial barriers are high for a person, the cost of taking the exit route is likely to be substantial. Hence he or she is likely to explore the voice option first before resorting to exit.

(d) *Combinations of exit and voice*

In Figure 3, public services are categorized into different groups according to the criteria of exit and voice. First, services can be classified according to whether there is scope for the public to exit if dissatisfied with what they get. This is a proxy measure for the feasibility of competition in the production and delivery of services. Second, public services differ in the degree to which their beneficiaries can make their voices heard if dissatisfied with the outcomes. For analytical purposes, Figure 3 depicts four combinations of exit and voice that provide a useful basis for the classification of public services. These should not, however, be treated as watertight divisions. As the vertical and horizontal arrows imply, they reflect degrees of actual or potential possibilities for the use of exit and voice. Examples of public services that fit the different combinations of exit and voice are given in Figure 4.

Cell 1 above represents public services that fit the low exit-weak voice combination. The nature of the services in this category is such that exit will be extremely difficult or costly for the public. At the same time, the beneficiaries involved are disadvantaged in the sense of being either poor or illiterate or both — hence their weak voice. They have limited capacity to use voice if dissatisfied with the services. This weakness can be exacerbated by legal, informational and institutional barriers. The public services in this cell can be produced efficiently on a small scale (e.g., to meet the needs of a small town or village).

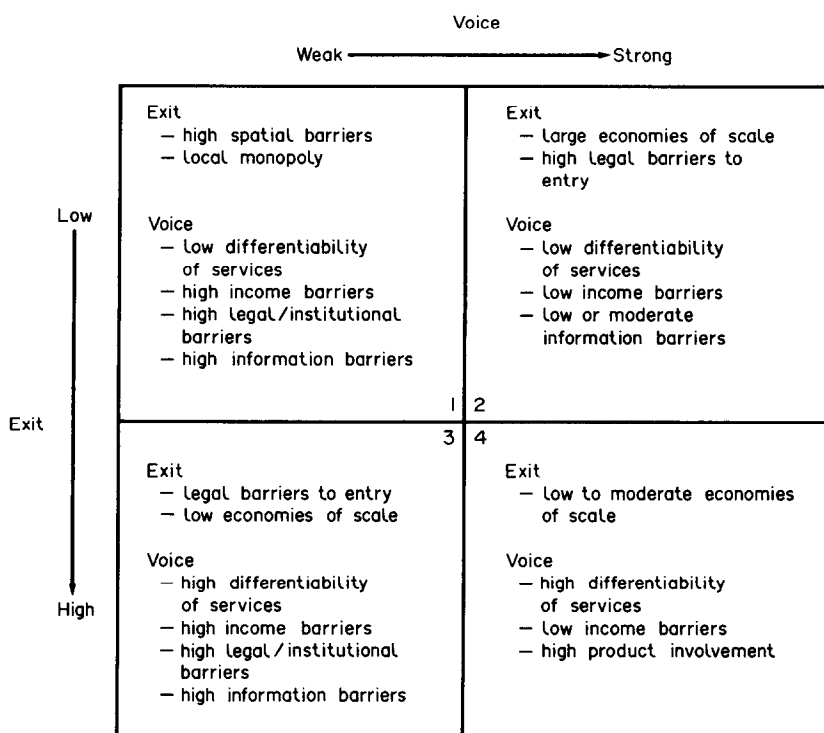


Figure 3. Characteristics of services and publics.

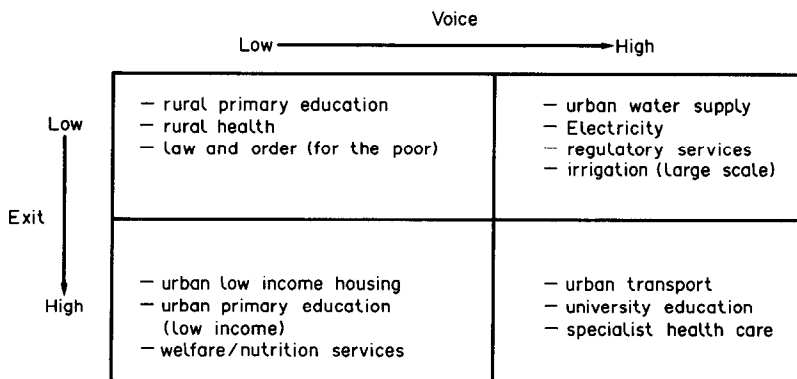


Figure 4. Examples of public service corresponding to different exit-voice combinations.

While economies of scale are thus not a barrier, spatial barriers to exit tend to operate. To illustrate, a village needs only a single primary school which can be operated efficiently. If, however, some villagers are dissatisfied with the school's services, the exit option may not be open to them as the next school may be located in a far away place.

A combination of low exit and strong voice

characterize Cell 2. Here again, exit for those dissatisfied with a service is impossible or expensive, but the scope for voice is considerable. Scale economies matter a great deal in the production and delivery of services in this cell. Natural monopolies owned or regulated by government illustrate the problem. Voice can be strong here for two reasons. Given the nature of the services, product differentiation is not pos-

sible or is extremely difficult to design with the result that the entire public gets more or less the same quality and type of service. Even if only a segment of the concerned public is capable of exerting voice, everyone stands to benefit from such action due to the externality effect explained above. Utilities such as electricity, telecommunications, urban water supply, and irrigation are examples of services in this cell. The public here is capable of using voice on its own initiative.

If service characteristics such as product differentiation are in fact present in a service in Cell 2, the expected positive externality effect through the use of voice is unlikely to emerge. Thus when there is scope for product differentiation in a service, externalities enjoyed by the weaker segment of the public (low voice) will tend to disappear and the use of voice by the stronger segment will not improve accountability for all. Under conditions of extreme inequality, this may be the case in irrigation, for example, where large farmers could use voice to get a disproportionate share of water at the expense of smaller farmers. Similarly, in the case of electricity, the basic product cannot be easily differentiated, but the related elements of repair and maintenance can be differentiated between different segments of the public. Improved accountability here would still require the use of voice, but possibly with some external assistance for the weaker segment.

Cell 3 depicts services with a high exit-weak voice combination. As in Cell 1, the services here are not sensitive to scale economies. This means that in a given geographical area such as a city, several units can efficiently produce and deliver the services. When performance deteriorates, this will enable the public to exit provided multiple service providers exist. At the upper end of the spectrum in Cell 3, the scope for exit may be reduced through policy-induced legal barriers to entry.¹⁰ Thus a government may permit education only under public auspices although voluntary agencies or private entities could provide this service. Product differentiation, however, is feasible in these services, thus making it possible for those with strong voice to opt for the quality they prefer. This tendency separates the segment of the public with weak voice from the former. Even if product differentiation is not present, policy-induced legal, informational and institutional barriers to voice may also weaken the public's voice. Urban services which lend themselves to differentiation will fall into this cell, e.g., low-income housing, and health clinics in poor areas.

Finally, Cell 4 refers to some of the quasi-

public and private services that governments might provide under public auspices for a variety of reasons. Here, services are characterized by low to moderate economies of scale so that potentially several units could produce them in a given geographical area. As a result, the potential for the public to exit is high when faced with performance deterioration. The relative importance of these services to the public is high thus causing their "product involvement" to be high. This condition, coupled with the fact that services can be differentiated for the benefit of the public with high income, education, etc., may facilitate the use of voice by the latter. These services may often be the same as those in Cell 3, but differentiated for the higher income groups who normally can exert a strong voice. High quality schools, hospitals, and air transport are examples.

Some of the barriers and characteristics discussed above are natural whereas others are policy induced or political in nature. Economies of scale, spatial barriers, the relative importance of services, and infeasibility of product differentiation are natural factors. Some of the policy-induced factors may originate in political discrimination or denial of rights, e.g., low income or education and some legal barriers. In general, political barriers are reflected in policy-induced factors. Legal, information and institutional barriers, and income and education characteristics (to a large extent), are thus policy-induced factors.

The mix of barriers and characteristics in the four cells of Figure 3 can be used to predict the degree of exit and voice potential that different public services can have. The basis of the prediction is an analysis of the services in terms of these characteristics/barriers and the extent to which they are natural or policy induced. There are, however, some services which are similar in nature between certain cells. This is because when provided to different types of population the same service can be characterized by differing degrees of exit or voice potential. For example, primary education is found in both Cells 1 and 3 of Figure 4. Nevertheless, from the standpoint of accountability, this seeming overlap does not imply a duplication. Contextual features and attributes of the public need not be the same even for identical services. An urban primary school, unlike a rural school, may leave an exit option for the public. If the relative importance of this service to a segment of the public is high (product involvement), voice may be resorted to before exit.

3. IMPROVING ACCOUNTABILITY: A MENU OF OPTIONS

What options are available to improve public accountability for the services in the four cells discussed in Figure 4? This question can best be answered by viewing the features of each service against the constraints and opportunities for exit and voice being faced by the relevant publics. Given the diversity in the characteristics of services and their publics, a menu approach is clearly superior to an approach that promotes a single or standardized solution.

Some implications for improving public service accountability are self-evident in Figure 3. First, the accountability problem appears to be most severe in Cell 1 where the potential for both exit and voice are low. Second, the search for improved accountability as one moves down to Cell 3 should focus more on exit (for example, private or competitive delivery) than on voice. To improve accountability in Cell 2, on the other hand, the thrust should be on voice rather than on exit. The greatest need for improving accountability is in these three cells with Cell 1 and 3 deserving priority attention. Third, the search process should first explore the scope for eliminating policy-induced barriers and characteristics as a means to improve accountability. Natural barriers or features are more difficult to deal with. Hence the payoff from the latter will be smaller and the time taken to achieve improvements will be longer.

A suggestive menu of options for improving accountability through the use of exit and voice

mechanisms is offered in Figure 5. The specific choices to be made will depend on the exit-voice potential combination that exists in a given context. To illustrate, the public in Cell 1 whose exit and voice potential is low, faces natural exit barriers whereas most of their voice barriers are policy induced. Accountability can be achieved here not through exit, but through the use of voice aided by external agents (e.g., nongovernment organizations or public evaluation). For the public in Cell 2 who have strong voice, mechanisms such as public hearings, and participation in decision bodies can help improve accountability. This group may well deploy voice mechanisms on their own rather than depend on external support or initiative. Those in Cell 3 who are weaker in voice can explore exit mechanisms such as vouchers and contracting out.

Figure 5 shows that exit/voice mechanisms do not influence accountability in isolation. The proposition is that exit, voice, and HC determine accountability in an interactive mode. This is important because the test of the impact of these mechanisms lies in the behavior of the public agencies involved, though the case for the use of exit and voice to improve accountability is theoretically persuasive. Some have argued that while exit might cause private providers to be more efficient, a competing public agency might revert to the "quiet life" as it faces less demand pressure from the public. The crux of the matter is in the medium through which the signals from exit or voice are transmitted to service providers. The only medium that can directly pass on these signals to them is "hierarchical control" (HC) as

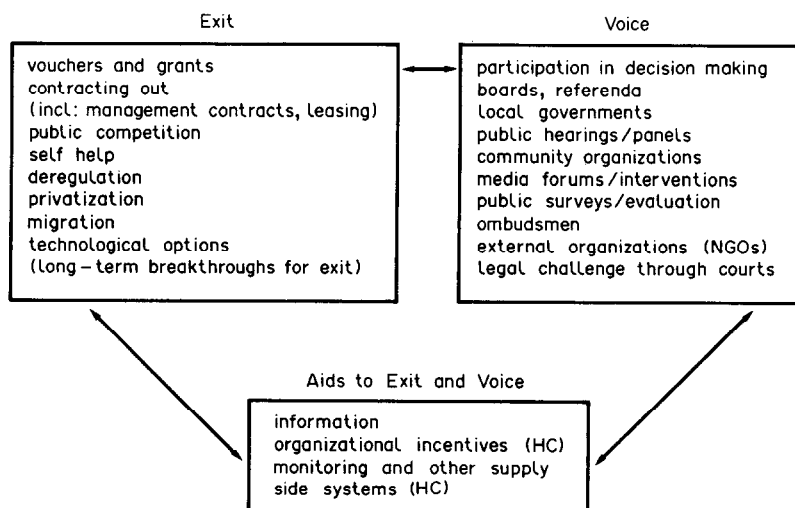


Figure 5. *Mechanisms for accountability.*

the incentives that influence the behavior of service providers operate through HC. The tendency of public service providers to resort to the quiet life in the face of exit can therefore be explained in terms of a missing or inadequate HC.

Whether the use of exit and voice mechanisms results in the improvement of public accountability will depend on two conditions. First, the use of exit and voice should be consistent with the characteristics of the services and the publics involved. An analysis of the features and barriers of public services and of the publics involved can be used to predict the potential for the use of exit and voice in specific service contexts. This analysis along with the knowledge of the extent to which the features/barriers are natural or policy induced provide a basis for the design of new mechanisms for public accountability and improved service performance.

Second, exit and voice should cause the behavior of the public service provider to change. Since HC is the instrument for achieving behavioral changes in the service provider, the condition to be met is that its monitoring and incentive systems are adapted in response to exit and voice (see Figure 5). This is important because if HC has not been adapted, the public service provider's behavior is unlikely to be affected and exit and voice would not have had their desired impact on accountability. With the use of exit, for example, some segments of the public may benefit by moving to private providers. Public service providers may remain as inefficient and ineffective as before if they do not get the right signals through an adapted HC. A measure of the adaptation is the extent to which monitoring by the provider spans the efficiency, access and quality of the service instead of being limited to inputs and compliance with internal rules. When such monitoring is reinforced by appropriate incentives to the provider, HC can be said to have adapted to exit and voice. If an adaptive response does not follow, exit and voice mechanisms may be further modified so as to give stronger signals to the provider. When mutual consistency between HC, exit and voice is achieved, the second condition for improving public accountability is satisfied.

We now examine the relevance of the exit and voice mechanisms of Figure 5 for improving the accountability of services that fall under the different cells of Figure 3. Though they are important, less attention is paid here to the role of HC mechanisms (monitoring, incentives, etc.) mainly because there is an extensive literature on the subject (Heald, 1989; Ramanathan, 1982).

(a) *Low exit — weak voice*

Since both exit and voice are difficult or too costly for the public in Cell 1, these services pose the most severe challenge to those who design accountability systems. When there are severe constraints on exit and voice, the traditional approach of improving accountability through better HC will have serious limitations, chiefly because the public will not be able to challenge the collusive tendencies of service providers and their supervisors. The answer therefore lies in searching for ways to expand the exit and voice options, and integrating them with appropriate HC mechanisms.

Given the constraints on exit, however, the focus of accountability in Cell 1 has to be on voice. The exercise of voice is not only costly for the poor in terms of time and effort, but also more risky than exit as the outcomes of voice are less certain given the severity of market failure (see Figure 2). The poor are unlikely, therefore, to readily invest in the use of voice. Given the high costs of voice facing them, the endeavor should be to search for voice surrogates. These are external agents who mobilize or organize the local public in order to demand and monitor better service performance. For example, the public tends to trust nongovernmental organizations (NGOs) to play the monitoring role in such difficult cases (Weisbrod, 1988). In some cases, NGOs may also act as service providers. Their voice-augmenting role tends to reduce the cost of voice to the local public who are generally poor and illiterate. In health services, population control, and education, NGOs have played this role admirably in many developing countries (Paul, 1987; Esman and Uphoff, 1984). The alternative of a local community organizing itself to exert voice is also feasible.¹¹

Dissemination of information about services can aid the public in demanding greater accountability from service providers (Harry, *et al.*, 1977). More systematic pressure can be exerted through a periodic public monitoring and evaluation of the relevant public services. This can be done under public or private auspices. An expert group, for example, can be commissioned to poll the beneficiaries or gather data from them as well as the service providers for analysis and comparison across locations and over time. Complaints procedures and the institutional mechanism of the "ombudsman" are ways of providing voice to the people when there is no need or incentive for collective action. Here the attempt is to let individuals make known their problems to designated authorities for redressal. "Hotlines" can be established to help the public respond quickly to

unsatisfactory services or decisions by public agencies. A review of international evidence in this area shows that these mechanisms are in place in many countries, but that their utilization and impact vary widely. An important finding is that in poor societies, it is the elites who tend to use these devices more effectively.

Though spatial barriers are the binding constraint on exit, it is possible that new technologies for service delivery can be used to augment the scope for exit. For example, under certain conditions, mobile courts, schools and hospitals can cross spatial barriers and offer more options to the public in the fields of criminal justice, education, and health. As Hirschman has noted, there is a risk that easier exit may not necessarily eliminate the performance deterioration in the local public school or clinic. The fact remains, however, that technology can be a source of exit expansion under certain conditions and may cause overall accountability to improve.

(b) *Low exit — strong voice*

In view of the dominance of scale economies, the scope for improving accountability through the exit option is limited in this case. Supplementary generation of electricity by agents other than an existing monopoly can be thought of, for example, as a means of increasing competition in the utility field. But the impact of such measures remains relatively insignificant. The improvement of accountability must therefore be sought in devising creative ways to use voice.

Since strong voice characterizes this cell, an important option to explore is the participation of the public's representatives in the decision-making bodies of service providers. For example, users' representatives can be made members of the boards of directors or committees of these organizations. Where appropriate, users may hold stocks of utilities so that they have a stake in their management and performance. In most developing countries, such use of voice or "public participation" is conspicuous by its absence. Irrigation projects, for example, are typically owned by governments. Yet, beneficiary farmers could be made joint investors, or responsible for management and maintenance, thereby creating a strong incentive for them to demand and facilitate good performance.

In developed countries, public participation in the regulatory process is an established practice. In the United States, many regulatory agencies have a statutory duty to provide a forum for disputes arising in the course of the agency's rule making, or between those regulated and those

affected by the actions of the industry concerned. Since public participation in this process was limited relative to that of the regulated industries, intervenor funding mechanisms have been created in some cases to deal with this imbalance. Thus the California Public Utilities Commission has established a mechanism for after-the-fact funding to groups and individuals who have a financial hardship and who have made unique contributions to a decision adopted by the Commission.

Where direct participation of users in decision making is difficult or inappropriate, it may be possible to consult them on important issues or to afford them opportunities to express their views on key decisions directly affecting them. Public hearings or advisory panels for the revision of rates in utilities are good examples of this approach. These devices can be set up by service providers or through regulatory agencies which are in any case necessary given the monopolistic nature of the activities involved.

(c) *High exit — weak voice*

Since exit is relatively less costly than voice for the set of services in Cell 3, the basic thrust of accountability improvement here should be on expanding the scope for exit.

Deregulation of services is an obvious option to consider since there is usually space for both public and private service providers to coexist and compete. For example, deregulatory measures in the education sector may induce the establishment of private schools along side public schools. Monopolies granted to trade agencies, when abolished, will encourage private traders also to enter the field. Since the public involved is poor (weak voice), the public function of regulation and possibly subsidization is likely to continue. One option is to make grants to the private providers so as to minimize any adverse economic impact of deregulation on the poor. Grants-in-aid to NGOs have been used in both health and education sectors to achieve this objective.

If for some reason, certain services require close government supervision, contracting them out to multiple private providers can be another option. This approach would permit careful monitoring and quality control while affording increased scope for exit to the public. Municipal services of various kinds (garbage disposal, road maintenance, tax or fee collection, etc.) have been contracted out in many developed countries. An important way in which this mechanism has an impact on accountability and performance is by using the threat of potential entry to control

the monopolistic behavior of incumbent service providers.

A more direct impact on accountability can be made through the use of vouchers. People who deserve special support for income or other reasons can now receive subsidies for certain services while choosing the service providers that meet their needs most efficiently. The administration of vouchers could be more cumbersome than that of grants to the service providers. On the other hand, vouchers are a superior mode for the exercise of exit in comparison to the grant system (Howenstine, 1986). Chile successfully replaced housing subsidies through low interest rates with the more direct subsidized method of a voucher program. Under this system, beneficiaries pay for the value of a specified house with their own savings, the voucher and a credit obtained from commercial banks at market interest rates. Initially vouchers did not work well because there was no private supply of very low-cost housing and because the commercial banks were not initially interested in financing low-income earners.¹²

(d) *High exit — strong voice*

This is the simplest case of all since services in this cell rank high on both exit and voice. To the extent that some of these are private services, the options to follow are fairly self-evident.

Privatization is clearly the first option to explore. When the potential for exit and voice are both high, market competition can be expected to ensure accountability. Where quasi-public goods are involved, governments may continue to perform a regulatory role (e.g., standard setting, quality control, etc.). For example, city transport may be left to competing private transport operators, but under the watchful eye of a regulatory body, advisory councils involving the public, etc.

Where the private sector is not adequately developed, there may be a case for the public sector to continue to play a service provider role. Instead of outright privatization, public-public, and public-private competition may then be encouraged. For example, private banks may be permitted to compete with public sector banks. Both public and privately owned airlines may coexist. Both privatization and public-private competition can be expected to ensure accountability through the exit option.

Hierarchical control (HC) within public agencies and the exit and voice options discussed above should be mutually reinforcing. If service providers do not have the incentive to improve

quality as indicated by the feedback from a public evaluation or a panel, accountability and performance will not improve (Buchanan, Tollison and Tullock, 1980). The commercial nature of some services (utilities, public enterprises with priced services, etc.) will make it easier to use financial and other related incentives to motivate the employees of the service providers. The primary task here is to ensure that such incentive and control systems are consistent with the requirements of accountability to the public (Bos, 1986).

4. CONCLUSIONS AND POLICY IMPLICATIONS

The basic argument of this paper is that public accountability is an important determinant of public service performance and that its impact on performance can be augmented by moving away from an exclusive reliance on HC mechanisms such as monitoring and use of organizational incentives to a system that uses exit or voice mechanisms in conjunction with HC. Whether the public will resort to exit or voice will depend on the relative costs associated with these options and the expected value to them of the performance improvement resulting from their use in a specific context.

An analysis of the features of and barriers facing public services and the publics involved can be used to predict the potential for the use of exit and voice in specific service contexts. This analysis along with the knowledge of the extent to which such features/barriers are natural or policy induced provide a basis for the design of new mechanisms for public accountability and improved service performance. The propositions summarized below can be used as a guide to the choice of options for improving public accountability.

(a) When a public service operates as a local monopoly due to spatial barriers and the public involved is characterized by low incomes and legal, informational and institutional barriers, improved accountability can be achieved through the use of voice.

(b) Under the conditions stated above, the use of voice by the public is likely to be stimulated or assisted by the intervention of agents/organizations outside of the local community (e.g., NGOs).

(c) When a public service is characterized by large economies of scale and/legal barriers to entry, and its differentiation is difficult while the public involved or a segment of it is not constrained by low incomes and limited information,

voice can be used to improve public accountability.

(d) The use of voice under these conditions is likely to be initiated by the public and not through the mediation of external agents.

(e) When a public service can be differentiated, but is not constrained by economies of scale in its production and the public involved faces income, informational and institutional barriers, improved accountability can be achieved through the use of exit.

(f) When a service is characterized by "product involvement" and offers potential for both exit and voice, accountability can be strengthened through a combination of exit and voice mechanisms.

Exit and voice actions of the public at the level of specific public services (micro) may well compensate for the reduced effectiveness of heavily overloaded macro level accountability systems (e.g., delays in public expenditure audits, inadequate legislative reviews). Even if public auditors and legislators are forced to spread their attention thinly over an expanding and wide ranging set of public services, exit and voice can be used to exert pressure on public accountability from below. Similarly, working with exit and voice mechanisms to improve services, the public is likely to become more sensitive to accountability issues in general and to support and strengthen the institutions and practices that are essential to macro level accountability.

Macro level accountability, on the other hand, can reinforce the impact of exit and voice mechanisms at the micro level in three ways. First, systematic and repetitive practices of public audits and legislative reviews of national scope tend to create an enabling environment for micro-level mechanisms such as exit and voice to function. In their absence, the latter may be initiated or may survive for some time, but may not be sustained. Second, even if conventional accountability mechanisms like expenditure audits and reviews do not address issues of performance and outcomes adequately, feedback from below through devices such as exit and voice will provide a basis to raise such issues at the national level more often than will be the case otherwise. Third, those in charge of macro-level accountability could use the feedback from below also to induce the HC systems under their charge to be more responsive and accountable to the public.

Governments in developing countries can take a number of steps to enhance public service accountability.

(i) If the power of exit and voice mechanisms in promoting public accountability is accepted, it follows that systematic attention to their identification and potential use must be considered at the design stage of programs that are meant to deliver services with public good characteristics. During program preparation, the barriers to accountability discussed above need to be identified and exit and voice mechanisms developed taking into account the nature of the service and of the public involved. While it is appropriate to strengthen the internal control system in a public agency, one should not assume that accountability for performance will follow simply because hierarchical controls are in place.

(ii) In programs whose outputs/services are meant for reasonably well defined publics (locationally or through targeting), there is merit in eliciting public feedback on government services periodically. The purpose here is to generate information as a basis for both the government and the public to learn, respond and adapt so that performance can be improved. A suitably designed public evaluation should not be a one-time affair, but one that is undertaken periodically as a mechanism to enhance transparency and accountability.

(iii) In public utilities and other services where the exit option is unavailable, governments need to explore the scope for providing voice mechanisms to enhance accountability. Even where regulatory agencies have been set up to deal with monopoly situations, there is a case for increasing public participation. Public hearings, induction of nonofficials/experts on boards/advisory panels, public access to important deliberations/meetings, public dissemination of key performance indicators, and surveys of public satisfaction are some of the mechanisms that deserve attention.

(iv) Voice mechanisms can be built into the device of the memorandum of understanding or contracts to improve the economic performance and accountability of a variety of public enterprises and other agencies. Efficiency measures play a key role in these contracts. But exclusive reliance on efficiency indicators may not cause accountability to improve in all cases. There are issues of the effectiveness of the goods and services covered by performance contracts that cannot be easily judged solely by these indicators. Thus if the quality or some other attributes of a service can be assessed only through user feedback, voice mechanisms may be the only valid basis to follow (Kanter and Summers, 1986). This may be necessary also to counter the tendency of interest groups in large agencies to

“manage” technical data in ways that suit them and as a crosscheck with other sources of data on the more difficult to measure attributes.

(v) Micro level accountability will be sustained only when the government and the society at large are concerned and wish to improve governance. Comparative information on how differ-

ent countries perform in respect of key public services can be a powerful tool to generate greater national and international interest in this subject. It will provide the data for governments, scholars, media and the public at large to see where their countries stand in respect of the level and quality of their services.

NOTES

1. We shall refer to them as “public services” hereafter.

2. Public accountability involves three groups of interrelated stakeholders. The public and the customers of the service (often a subset of the public at large) are stakeholders interested in service providers being accountable to them for attributes that benefit them most. Political leaders and bureaucratic supervisors of service providers are stakeholders who would like the latter to be accountable to them for a mix of public policy and possibly private or parochial goals that interest them. Service providers themselves constitute a third category of stakeholders with objectives and interests often different from those of the first two.

3. Exit and voice options can be both substitutes and complements to each other depending on certain underlying conditions which Hirschman develops in his book. He further notes that the cost of voice could be higher than that of exit in view of the need for collective action and the risk of the less certain outcomes of voice.

4. Readers unfamiliar with cost-price analysis may consult any standard textbook in microeconomics for an introduction to the basic concepts.

5. The level of voice costs will be affected also by the prevailing sociopolitical environment. For example, a free press, dissemination of information, legal rights, etc. will reduce costs for the individual.

6. Note that services here differ only in respect of the degree of market failure. Strictly speaking, only one type of market failure should be considered at a time along the Y axis (e.g., natural monopoly). Needless to say, these are highly restrictive assumptions.

7. Returns are the monetary equivalent of the gains from improved accountability that the individual receives as a result of the use of exit or voice. The upward shift is treated here as an autonomous step, but need not always be so.

8. This term refers to the concept of “product differentiation” frequently used in studies of industrial organization and marketing.

9. Product involvement is a term used in the field of marketing, and is a proxy for the relative importance of goods to consumers.

10. Note that scope for exit increases as one moves down vertically from Cell 1 to Cell 3.

11. Since the 1960s, many experiments in the use of voice have been attempted in the developing world with a special focus on the poor.

12. The voucher system works better when the quality of service is easily determined by the user, many suppliers exist and users aggressively shop around (Allen, 1989).

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