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**FEDERAL GOVERNMENT ENTREPRENEURSHIP:
NEW ENTERPRISE STRUCTURES**

Fredric Kropp

Associate Professor of Marketing and Entrepreneurship
Fisher Graduate School of International Business
Monterey Institute of International Studies
460 Pierce Street
Monterey, CA 93940
Phone: (631) 647-6684
Fax: (831) 647-6506
E-mail: fredric.kropp@miis.edu

Roxanne Zolin

Assistant Professor of Management and Information Systems
Graduate School of Business and Public Policy
Naval Postgraduate School
Monterey, CA 93943-5197
Phone: (831) 869 1700
Fax: (831) 656-3407
E-mail: rvzolin@nps.edu

U.S. FEDERAL GOVERNMENT ENTREPRENEURSHIP: NEW ENTERPRISE STRUCTURES

Abstract

Purpose - To guide the formation and to determine the structure of new governmental entrepreneurial ventures based on the nature of the public goods and the need for an entrepreneurial orientation.

Design/methodology/research - This paper is conceptual and is based on reviews of appropriate organizational structure and entrepreneurship, cases studies, and the authors' experiences.

Findings - Public or quasi-public entities may need to change their organizational structure in order to act more entrepreneurially and to be more effective in accomplishing their missions. Propositions are raised to guide the development of new public or private enterprises and provide the basis for future research.

Research Limitations/Implications - This paper is conceptual and needs to be tested empirically. Though other levels of government and countries were included, a major focus is on the U.S. federal government.

Originality/value - This is the first published research on the topic of new enterprise government structures based on the nature of the goods and the requisite entrepreneurial orientation. It will help governmental and quasi-governmental organizations in developing efficient and effective organizational structures.

Keywords New enterprise structure, public goods, government structures, entrepreneurial orientation

Paper Type conceptual research

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Introduction

Entrepreneurship and innovation play a key role in economic growth, accelerating the generation and application of innovative ideas (Styles and Seymour, 2006). Entrepreneurial organizations outperform non entrepreneurial organizations, *ceteris parabus* (Lumpkin and Dess, 1996; Covin and Slevin, 1991). More than 10 million adults are in the process of starting businesses in the United States at any given time (Ewing and Marion Kauffman Foundation Website, 2005) and entrepreneurship is expanding dramatically in international markets (Kropp, Lindsay and Shoham, 2006). Though often thought of as applying to small start-up ventures, entrepreneurship has expanded to include entrepreneurial behavior by larger established corporations Knight and Cavusgil (1996) and government entities (Lewis and Zolin, 2004). Government programs in many countries sponsor entrepreneurship and innovation, e.g., the Small Business and Innovation program in the United States, the Vinnova programs in Sweden, the Commercial Ready program in Australia, and the Multimedia Super Corridor in Malaysia (Kropp and Zolin, 2005).

The distinction between public and private organizations is often blurred as more private organizations deliver public goods and private organizations become more socially responsible. At the same time, with the trends towards privatization and outsourcing, public organizations are moving toward private sector management practices (Osborne and McLaughlin, 2002; Thynne, 2003). There also have been substantial changes in the budgeting processes and significant

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changes in the external environment, promoting the need for governmental agencies to mirror the private sector and to act more entrepreneurially in order to accomplish their missions. The concept of innovation and entrepreneurship in public organizations has gained momentum (Borins, 2002), both in the U.S. and in other countries. Some New Public Management (NPM) proponents argue that changes in institutional arrangements for service delivery could give organizations mandates to focus on providing greater benefits to specific groups of users, increased responsiveness and better service quality (Aucoin, 1998; Murdock, 2004). Advocates of NPM have embraced the concept of the minimalist state, in which the government arranges for specific services but does not necessarily provide them (Jones and Thompson, 1999: 18; Savas, 2000: 65; Pollitt, 2002). In contrast to traditional public administration, NPM is concerned with implementation rather than solely with policy prescriptions (Kelman, 2003). The focus is therefore on the operation of management systems and techniques, as well as associated outcomes. NPM also proposes that public outcomes should be assessed at least in part using clear standards and quantifiable performance measures (Thynne, 2003) typically associated with use by private firms. Thus the philosophy and practice of NPM also serves to blur the distinctions between Public and Private organizations and foster innovation.

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An entrepreneurial orientation is a predecessor of acting entrepreneurially. Lumpkin and Dess (1996, 2001) conceptualize entrepreneurial orientation as the processes, practices, and decision-making activities employed by entrepreneurs that lead to new entry and support entrepreneurial opportunities. Although entrepreneurial orientation has been conceptualized as having from three to five dimensions, the three most common components are proactiveness, risk-taking, and innovation (Kropp, Lindsay and Shoham, 2006). Entrepreneurs generally accept

that entrepreneurship involves risk-taking and are willing to take calculated risks in return for potential rewards (Kropp and Zolin 2005).

Research in the private sector has shown that environmental factors and organizational structures influence the extent to which entrepreneurial orientation affects performance (Lumpkin and Dess, 1996). Enterprise development, the birth of new ventures, occurs in both governmental and non governmental agencies (Lewis and Zolin, 2004). The birth of new public enterprises in governmental entities leads to a series of interesting questions. Should the new enterprise be public or private? Should the *publicness* or *privateness* of a new enterprise be based on the *publicness* of the parent organization or should it be a different structural design? What criteria can be used to guide this decision?

This paper asks the research question: when an opportunity is identified for a government agency to create a new enterprise, what decisions can be made to locate the organization on the Public to Private Continuum, and what heuristics can be used to help make those decisions? This paper explores different aspects of public goods and provides a framework for the public versus private organizational design decisions of the new enterprise. We examine the role of entrepreneurial orientation on the design structure. We propose that public or quasi-public entities may need to change their organizational structure in order to act more entrepreneurially, especially in the formation of new entities that may be brought about by changing missions or technological advances. Propositions are raised to guide the development of new public or private enterprises and provide the basis for future research.

The Birth of New Enterprises in the Public and Private Sectors

Although entrepreneurship, the activity of creating new ventures, is largely associated with private enterprise, entrepreneurial behavior also occurs in the public sector (Pinchot and

Pelham, 1999). Pinchot's (1995) book, *Intrapreneuring*, popularized the idea that entrepreneurs could, and should exist within larger organizations, which could also include the government sector. Policy, entrepreneurship and innovation are of growing interest in U.S. government and military sectors (Roberts and King, 1996; Osborne and Gaebler, 1983; Thompson and Jones, 1994; Jones and Thompson, 1999). We propose that environmental or contextual changes can necessitate a government to change the way it operates, both in terms of structural design and in terms of process. As an example, the change from the Cold War to the War on Terror has led to a shift in focus for the U.S. Department of Defense and the creation of the U.S. Department of Homeland Security, in 2003. Each organization needs to act more quickly in response to threats and opportunities. Decision-makers may need to have more autonomy and an ability to be innovative in their responses including introduction of new products and methods of production, developing new organizational structures, and use of new materials and/or sources of supplies. These activities roughly approximate to four of Schumpeter's (1954) five types of innovation: new production methods, opening new markets, new sources of supply, and new organizational structures (Styles and Seymour, 2006).

Similarly, just as new technologies create opportunities for new enterprises in the private sector; new technology also spawns new federal government initiatives. An example of a technology driven new public enterprise is the U.S. Navy-Marine Corps Intranet (NMCI), which represents an initiative to make comprehensive network-based information services available for military activities. Another example is the U.S. Naval Air Systems Command's new Enterprise *AIRSpeed* logistics program, which introduces new logistical techniques in support of naval air maintenance operations. These programs can be viewed as examples of Shumpeter's (1934) other type of innovation, the introduction of new products.

The Public to Private Continuum

Private organizations are enterprises that produce a product for the profit of the owners (Pindyck and Rubinfeld, 2005). Depending upon the structure of the legal entity, decision making and governance can be made by sole proprietors, partners, or boards of directors. In contrast, other enterprises are described as being public, where *publicness* represents the extent to which public authority influences how organizations act (Nutt, 1992). Rather than viewing public and private as dichotomous categories, it is possible to view the structure on a public-private continuum (Lewis and Zolin 2005).

Perry and Rainey (1988) identified ownership, funding, and control to sort organizations into eight categories. Public ownership implies that some form of government entity owns the assets and decision rights to the enterprise. Public funding means that the goods and/or services provided are paid for out of the public purse. Public control means that the government is the primary decision maker, both in terms of day-to-day decisions and longer-term decisions.

Rainey and Bozeman (2000) contend that all organizations have some level of publicness. Lewis and Zolin (2005) proposed a Public to Private Continuum, which ranks organizations from public to private based upon Perry and Rainey's three factors --- public vs. private ownership, public vs. private funding, and type of control, plus the extent to which the organization uses a board as a proxy for market interactions. Lewis and Zolin (2005) suggest that the Public to Private Continuum can be extended to include other factors that differentiate public and private organizations.

The Nature of Public Goods

Public goods have joint consumption, which means that exclusion of some from use of the good is often unfeasible (Savas, 2000). For example, if the government spends money to

protect the environment, all citizens and visitors potentially enjoy cleaner air and water. As another example, the U.S. Department of Defense provides national security to the entire United States. Similarly, the French Ministry of Interior provides law enforcement services to all people in France. Although there are many possible definitions of public goods, we use the Carlton and Perloff (1994) conceptualization: if goods are provided to one person, they can be automatically made available to others. In essence, this is joint consumption. This positive externality means that the provider of the public good cannot limit the use of the good to those who pay for it.

There are, however, some public goods that are divisible or rationed. They can be provided to one set of the population but not to another based upon predetermined criteria. As one example, special education programs can be provided to students who meet certain criteria. As another example, the ministries of health in various countries “ration” public health care. As a third example, public museums or symphonies may be partially subsidized by governmental entities and supported by public admission fees. Even though it is a public good, it may not be available to all of the public as a function of their inability to pay the admission fee. Therefore, the exclusion/non-exclusion factor is important to the funding decision.

PIA: If the government considers the product a public good and exclusion is unfeasible, the new venture should seek public funding.

PIB: If the government considers the product a public good and exclusion is feasible, the new venture should seek public and/or private funding or philanthropy.

Although people might disagree on definitional terms and disagree where items may fall in the continuum, public goods and services can vary along the continuum of essential to non-essential to society. Essential services include those that directly relate to public safety and well-being, e.g., fire-fighting. For reasons such as safety, security or international obligations must

remain the responsibility of the government. Though non-essential services are desirable, life-enhancing, and beneficial to the public, the public can live without non-essential services; e.g., a museum or the opera. For these reasons, public goods and essential goods are typically delivered by the government and paid for out of taxes, or outsourced to competitive market service providers but still paid for by the government. Therefore,

P2A: If the product or service is an essential good, the new venture should consider public funding and public ownership

P2B: If the product or service is a non-essential good, the new venture should consider private funding and private ownership

P2C: If the product is a public or essential service in some market segments, but a private good in others, the new venture should consider a hybrid funding model.

Entrepreneurial Orientation

Entrepreneurial orientation is the practices, processes, and decision-making activities employed by entrepreneurs to enter new markets and to support entrepreneurial opportunities (Lumpkin and Dess, 1996, 2001). Entrepreneurial orientation is typically conceptualized as having three to five dimensions including autonomy, innovativeness, proactiveness, risk-taking, and competitive aggressiveness (Lumpkin and Dess, 1996; Kropp, Lindsay and Shoham, 2006). We explore the relationship of the elements of entrepreneurial orientation and the potential structure of the governmental entity.

Autonomy. For the purpose of this paper, we echo Lumpkin and Dess' (2001, p. 431) definition of autonomy as the "independent action by an individual or team aimed at bringing forth a business concept or vision and carrying it through to completion." On an individual level, autonomy implies a relative freedom from organizational constraints. On the institutional level,

it implies an empowerment to act without a cumbersome process. In general, hierarchical control is typically preferred in public enterprises. This limits the ability for decision makers to act autonomously, i.e., to act freely from organizational constraints. Given the changing nature of some aspects of government and the possible requirement to act quickly,

P3A: If quick decision making is required to deliver the good or service, the new venture should consider private ownership.

P3B: If quick decision making is not required to deliver the good or service, the new venture should consider public ownership.

Innovativeness. Schumpeter (1954) conceptualized innovativeness to include a wide variety of activities, such as, fostering creativity and a creative environment, supporting research and development, developing new processes, introducing new products/services, and technological leadership. Innovativeness spans a continuum from marginal improvement on one end of the continuum, to technological leadership on the other end of the continuum (Lumpkin and Dess 1996).

Innovation can be viewed as applied creativity in the business context (Kropp and Zolin, 2005). If creativity can be transformed into innovation, new attributes can be combined to develop new products or services. New production processes or new management approaches can be developed to solve business or customer problems (cf., Schumpeter, 1954).

We acknowledge that governmental entities support innovation, for example, through the Small Business Innovation Research (SBIR) Program in the U.S. and the Vinnova programs in Sweden, and that the government is attempting to become more innovative. However, the administrative hierarchical nature of government and requirements for public accountability can act as impediments to innovation. The nature of the government structure inherently slows

innovation. Again, acknowledging that there are people within the government who are innovative, the reward and punishment structure of many governmental entities do not promote innovation. There is little or no reward for innovativeness and little or no punishment for the lack of innovativeness. In addition, arguably, there is a self-selecting bias where people who are not innovator choose to work for a more conservative public organization. Often, the private sector can be more creative and innovative. Therefore,

P4A: If innovation is required to deliver a good or service, the new venture should consider private ownership.

P4B: If innovation is not required to deliver a good or service, the new venture should consider public ownership.

Proactiveness. Proactiveness involves a wide variety of activities including identifying and assessing the strengths and weaknesses of opportunities, and forming teams capable of exploiting them (Kropp, Lindsay and Shoham, 2006). Lumpkin and Dess (2001) describe proactiveness as an opportunity-seeking, forward-looking perspective. It implies a willingness to participate in emerging markets, acting opportunistically. Entrepreneurs need to be proactive in seeking out an attractive niche and creating the necessary resources to facilitate new entry (Lumpkin and Dess, 2001). Entrepreneurs need to develop a vision and determine ways to combine previously unidentified components to capitalize on perceived opportunities (Schumpeter, 1954).

Proactiveness is especially important to firms in the early stages of industry development (Lumpkin and Dess 2001). This is especially important in new venture spin-offs created by capitalizing on research and development or technological innovation (Kropp and Zolin, 2005). Therefore,

P5: The greater the need for proactiveness required to deliver a good or service, the greater the need for a new venture to consider private ownership.

Risk-taking. Forlani and Mullins (2000, p.304) conceptualize an entrepreneur's perception of risk as the "uncertainty and potential losses associated with the outcomes which may follow from a given set of behaviors." Entrepreneurs generally accept that entrepreneurship involves risk-taking and are willing to take risks in return for potential rewards. When possible, entrepreneurs would prefer to lower the risk aspects of the risk-return equation (Kropp, Lindsay, and Shoham, 2006). Governmental entities are often risk-averse and, in the extreme, risk avoidant. In addition, the inherent temperament of many people who work for the government are risk avoidant. Therefore,

P6A: If greater risk is required to deliver a public good or service, the new venture should consider private ownership.

P6B: If lower risk is required to deliver a public good or service, the new venture should consider public ownership.

Competitive Aggressiveness. Lumpkin and Dess (1996) conceptualize competitive aggressiveness as a firm's willingness to challenge its market rivals directly in order to gain market share. Competitive aggressiveness is more important to firms in later stages of industry development than in earlier stages (Lumpkin and Dess, 1996). Although we can think of several examples where the federal government is competitively aggressive, e.g., in the military context, we view these examples as exceptions rather than the rule.

P7A: If greater competitiveness is required to deliver a good or service, the new venture should consider private ownership.

P7B: If lower competitive aggressiveness is required to deliver a good or service, the new venture should consider public ownership.

Discussion

This conceptual paper builds upon existing entrepreneurship theory in order to better understand of the process of developing new government enterprise structures. Lumpkin and Dess (1996) proposed that an entrepreneurial orientation leads to better performance, subject to organizational and environmental factors. Though entrepreneurship is often thought of as applying to start-up or small business ventures, it has been extended to large organizations (e.g., Pinchot, 1985; Pinchot and Pelham, 1999) and government entities (Lewis and Zolin, 2004). Consistent with this literature, the basic premises in this paper are that changes in environmental contexts, changing needs, or new technological innovations frequently necessitate the creation of new entities born from existing government structures. There may be a tendency on the part of the federal government in the United States or governmental entities in other countries to create the new entity by replicating the structure of the previous entity. In short, there may be a belief that the off-shoot of an existing government agency, department, or other structure should be the same as the parent. Organizations tend to adopt the *publicness* or *privateness* of their parent organization. However, the blurring of the distinctions between *publicness* and *privateness* increases the importance of deciding where an organization should reside on the public to private continuum. Genetic *publicness* may not be the best option for the new enterprise.

We propose that the *publicness* or *privateness* of the new entity should be a function of the nature of the good and the necessity to act entrepreneurially. A more traditional public structure is better suited for public goods that are essential and where exclusion is not possible.

A less traditional public structure, one with components of *privateness*, is more appropriate for non-essential public goods and where exclusion is possible.

An entrepreneurial orientation is a precursor of acting entrepreneurially (Kropp and Zolin, 2005). We propose that, in general, public entities tend to have a lower entrepreneurial orientation than their counterparts in the private sector. Therefore we propose that the *publicness* or *privateness* of a new entity should also be a function of the need to act entrepreneurially. In environments where autonomy, proactiveness, competitive aggressiveness, innovation, and/or risk-taking are important, the structure of the new entity may be more effective if it adopts *privateness* characteristics.

Future Research

This paper has focused on the publicness of government enterprises, typically, on a national level, with many U.S. examples. Given differences in national culture, there may be great differences in governmental entities across countries. For example, would the publicness-privateness relationships, entrepreneurial orientation considerations, and the structure of new entity be the same in more authoritarian countries compared to more democratic countries? Open versus command economies? Smaller versus larger countries? Developed versus less developed countries? Independent versus highly interdependent countries? These questions all call for comparative studies.

Within the U.S., although the same arguments may hold for state and local governments, different propositions for these levels may emerge due to differing environmental contextual forces which, in turn, may impinge upon organizational contextual variables. For example, there is currently considerable turbulence, uncertainty, and dynamism associated with the national and international external environments, e.g., volatile oil prices, the threat of terrorist attacks, and the

war in Iraq. The success of organizations operating in more turbulent and uncertain environments requires them to be structured more organically, reflecting more open communication channels and decentralization than those operating in less turbulent environments (Burns and Stalker, 1961; Lawrence and Lorsch, 1967; Miller, 1983, 1988; Miller and Friesen, 1984).

The external environments of state and local government entities may differ in dynamism and uncertainty compared to environments of federal government organizations – or, it is possible that, environmental turbulence of state and local government organizations may vary geographically. Thus, state and local government environmental uncertainty influences will be more localized. For example, some states or communities may be more entrepreneurial than others. As a consequence, public entities in these localities may reflect more entrepreneurial cultures due to more entrepreneurial public bureaucrats in charge. Thus, for example, even where quick decision making is not required (as in P3B), it still may occur. Although innovation (P4B) may not be required, it may still occur despite the organization being publicly owned. Conversely, in more conservative communities, even where innovation may be required (P4A), the entity may be publicly owned. Thus, additional research is required into environmental and organizational contextual variables affecting publicness of state and local government organizations.

By design, this paper is conceptual. The first step needed will be to transform it from a conceptual study to an empirical study. This will require a study of federal governmental organizations that have created new entities. Though there are many possible ways of conducting this study, we believe that a series of structured qualitative interviews could be conducted with federal government agencies to determine what factors are typically taken into

consideration when designing new public enterprises. Follow-on research could compare and contrast case studies of new public and private enterprises to identify the advantages and disadvantages of the public or private structures chosen. The case study analysis could identify situations in which public or private funding, ownership or control was successful or unsuccessful and to examine the reasons for the outcomes. Based upon these preliminary studies a survey of new government or military enterprises could be conducted to test these propositions empirically. These studies could provide guidance to public servants involved in the creating new enterprises.

Conclusion

Although many new and emerging activities in the public sphere may replicate the publicness of their parent organization, a closer look at these organization structures is warranted. Correctly identifying the publicness or privateness of a new entity can have a direct bearing on its ability to perform entrepreneurially and survive in competitive conditions. When exclusion from a public good is unfeasible and if it is an essential good, public funding and ownership of the new enterprise may be more appropriate. If proactiveness, quick decisions, greater risk-taking, competitive aggressiveness and innovation are required, private ownership may be more appropriate. More research is needed to provide guidance in the creation of new enterprises in the public sector.

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