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Public, private, not-for-profit: everybody is unique?

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Abstract *Although some individuals argue that the public, private, and not-for-profit sectors are fundamentally different in many ways, the three sectors have many similarities. The similarities present opportunities to interact and learn from each other. Focusing on the similarities in the organizations rather than the differences can facilitate the exchange of ideas and learning across the sectors.*

Keywords *Private sector organizations, Public companies, Non-profit organizations, Learning*

As I listen to my colleagues from the three sectors of the economy – public, private, not-for-profit – discuss the problems they experience with their organizations three perspectives emerge: some see differences among the sectors, others see similarities among the sectors, and others are not sure if the sectors are different or similar. The perspectives appear to have an influence on the extent to which the individuals look across the sectors for solutions to organizational problems. Those who see similarities or are unsure of the existence of similarities search across the sectors for useful solutions to their specific organizational problems. However, those who see differences are a concern. Their search appears to be limited to their specific sector. At times, the view that each sector is unique interacts with an even more limiting view that each organization is unique. Solutions, if not problems, found in the organization are viewed as lacking parallels in other organizations. To be sure, every individual and organization is unique. However, just as there are more than superficial similarities among all individuals, there are more than superficial similarities among organizations in the three sectors.

Focusing on differences

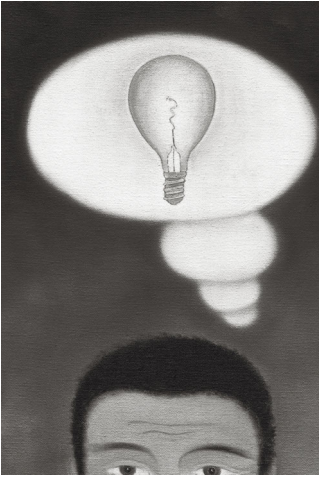
Those who see differences are contributing to the debate regarding the difference and similarities of public, private, and not-for-profit organizations that has been going on in the literature for decades (e.g. Murray, 1975; Allison, 1979; Perry and Rainey, 1988; Bozeman and Bretschneider, 1994; Bozeman and Rainey, 2000). The defenders of the opposing positions – particularly those who are arguing for the differences among the organizations – appear to be so fixated on making their point that what may be obvious commonalities among organizations may be ignored. For the academic arguing the issues, ignoring obvious commonalities may be relatively unimportant. However, insofar as the arguments influence practitioners to ignore basic similarities across the sectors, the arguments may both be impeding the exchange of ideas and techniques among the three sectors and positive change within the three sectors. Impeding the exchange limits opportunities for the sectors to interact and learn from each other.

Authors (Murray, 1975; Allison, 1979; Perry and Rainey, 1988; Roberts, 1993) argue that a number of characteristics or factors can be shown to indicate differences among the three sectors. The list includes a profit focus versus political focus, measurability of objectives, attitudes, accountability, the social good versus the bottom line, rational versus political decision making, contrasting personnel systems, the degree of control of the executive, time as a variable, duration of projects, the concept of agency, and the list goes on. Nutt and Backoff (1992) include a tabular presentation of the perceived differences among the three sectors. Table I is an edited and adapted version of their presentation. The arguments made on both sides of the debate are both insightful and persuasive. However, the focus of these arguments deal in general with issues at the institutional level or deal with the underlying assumptions that drive the organization.

It may well be that there are subtle and not so subtle differences among the three sectors. For instance, the top-level managers in the three sectors appear to have varying degrees of executive control. Historically, the private sector has allowed for a much higher degree of autocratic control than is possible in either the public or the not-for-profit sectors. Although as

Table I Sector differences

Factor	Sector		
	Public	Third sector	Private
<i>Environmental</i>			
Markets	Oversight bodies Collaboration among service providers Market data often unavailable	Oversight bodies and clients Implicit or negotiated franchises Market data captured cooperatively and shared	Buyers' behavior Competition among service providers Market data typically available
Revenues	Market signals weak Budget allocations	Market signals mixed Budget allocations and service charges	Market signals clearest Fees and charges
Constraints	Mandates and obligations	Negotiated relationships	Law and internal consensus
Political influence	From authority networks and users	From authority networks and negotiated relationships	Indirect
<i>Transactional</i>			
Coerciveness	People must fund and use	Funding and use tied to negotiated agreements	Consumption voluntary
Scope of impact	Considerable societal impact	Agreements can limit societal impact	Narrow concerns with little societal impact
Public scrutiny	Cannot sequester ideas and developmental processes	Ideas and developmental processes subject to periodic external review	Can sequester ideas and developmental processes
Ownership	Citizens often act as owners Ubiquitous stakeholders	Vested in users Many stakeholders	Stockholders Few stakeholders
<i>Organizational processes</i>			
Goals	Shifting, complex, conflicting Equity dominant concern	Multiple and difficult to prioritize Mixed concerns about equity and efficiency	Clear and agreed upon Efficiency the dominate concern
Authority limits	Contingent upon stakeholders	Depends on the agreement of negotiated relationships	Vested in internal authority figures
Performance expectations	Management within a government umbrella Posed by public action Vague and in constant flux	Management within an authority structure Posed by traditional roles Many interpretations with a consensus emerging	Management largely independent of outside influences No limits Clear and fixed
Incentives	Job security, power, recognition, roles and tasks	Professionalization norms create expectations	Financial
Edited and adapted from Nutt and Backoff, pp. 27-30, 1992			



Paine (2003) argues, this may be changing as private sector organizations are seen less as amoral entities and are deemed moral actors. Nevertheless, in a competitive environment, it is the customer of the private-sector organization that exercises ultimate control over the organization. Assuming that in the long-run customers will not buy something that costs more than its value, the survivability of the organization is dependent on the customers perceiving the value received is greater than the cost. The public sector executive, by design, is faced with multiple stakeholders who have varying degrees of control or impact on the decision-making of that individual. The built-in inefficiency – or at least multiple levels of control – are part of the checks and balances built into the public sector. In the not-for-profit sector, multiple stakeholders (e.g. clients, staff, donors, government) effectively limit the control of the executive relative to the private sector.

Another example that is postulated as a difference among the three sectors is the relative importance of economic efficiency. Economic efficiency is core to the operation of private sector organizations. Using resources efficiently to meet the needs of customers is critical to long-run profitability of the organization. Economic efficiency enables the organization to provide more value to society given a specified set of resources. The customers are interested in value, they do not care about efficiency *per se*. Economic efficiency is a means for an organization to provide more or equal value to the customer than the competitor. Providing equal or greater value at less cost helps assure the success of the organization. It is by providing value to the customer that is greater than the cost that the organization contributes to the social good. Authors (Downs, 1967; Allison, 1983; Roberts, 1993) argue that the political economy in which public sector organizations operate effectively precludes the use of efficiency as a performance metric. Allison (1983) takes the position that public sector entities are focused on equity rather than efficiency. Roberts argues that in the public sector it is not efficiency that is essential to measuring performance. “Performance is judged in terms of its compatibility with legal mandates, obligations to a charter, and the interest of current executive and legislative authority” (Roberts, 1993, p. 159). In the not-for-profit sector, the focus on efficiency as a metric can lead to larger organizations seeking economies of scale that can lead to improving the quality of the services provided. However, increased efficiency through larger size (i.e. economies of scale) can lead to a loss of responsiveness of the nonprofit organization to local societal needs. (Salamon, 1997) However, there is a distinction between increased efficiency and scale in processes that enable the organization to serve its customers or clients (e.g. supply chain and information technology management) and those processes with which the customer or client has direct contact (e.g. patient care, client services). Scale and efficiency in the support or enabling functions have the potential to facilitate more and better service to the customer or client.

The recognition of differences such as those discussed above may be critical to the operation and survival of specific entities. Whether a manager has more or less control, whether the personnel system has a market focus or rights focus, whether performance is defined in terms of the social good or the bottom-line will be of importance to the manager. However, those who focus on the difference seem to ignore or at least downplay useful similarities.

Focusing on similarities

Individuals need data upon which to base decisions regardless of the economic sector or if the decision model is rational, political, or symbolic. Regardless of the economic sector there is a common need for data so that the manager can make sound choices. The choices managers make in dealing with the donor, client, elected official, or customer are likely to influence the level of future economic and political support for the organization. It is probably safe to say that senior management wants the managers to make decisions that best serve the various stakeholders of the organization. The managers in turn may see good decisions as beneficial from personal, organizational, or societal perspectives. To make sound decisions, the managers need useful relevant information.

At one level data are data. However, the interpretation and uses of the data may differ from sector to sector. An example may help make the point. Let us look at accounting data. Whether

the employee is in the public, private, or not-for-profit sectors, the decision maker needs to know what resources are available and how those resources have been expended. The need for such basic information exists whether the individual has few or poorly defined objectives, whether there is a political or economic focus, whether it is a program for the short run or the long run, or whether the decision maker has a high or low degree of control over the expenditure of the resources. At the most basic level, knowing how the resources are used meets a fundamental fiduciary responsibility of any employee. At possibly a more important level, understanding the use of resources allows the employee to make intelligent choices or at least recommendations in the allocation of future resources. The recognition for the need of accounting systems that provide reliable data can be seen in the private sector in the resurgence of an effort to make accounting systems match the production processes. This effort is essentially a return of accounting to its roots of having systems that accurately represent the underlying production processes (Euske, 1991). The reevaluation of internal accounting systems gained momentum in the late 1980s as firms sought to better understand cost structures in a highly competitive environment. Why did the systems need to be reevaluated? In a nutshell, what happened was that the cost systems designed for production systems that turned out a few products with long lives were being used in environments where there were multiple products with relatively short lives. Not surprisingly, the type of cost systems that matched the more stable environment was not necessarily a good match in a more volatile environment. The effort to revamp accounting systems to match the underlying production processes became known as activity-based costing. Core to the concept of activity-based costing is that one must understand the production processes and the activities that make up those processes. Once the processes and the component activities are understood resources can then be appropriately traced to their ultimate use.

In the 1990s, government agencies began to take notice of the fact that private industry had identified a critical problem with its internal costing systems. Elements of the federal government began to evaluate whether or not the concepts inherent in activity-based costing would be useful to their organizations (Brimson and Antos, 1994). To some degree public sector organizations were faced with the same situation as the private sector. Systems designed with a compliance focus for simpler times no longer fit the management information needs in the current environment. It is probably safe to say that the inherent logic of having cost systems that match the production processes within organization is gaining acceptance across the public sector – at least at the federal level. For instance, the US Marine Corps is implementing activity-based costing across all of its bases. The US Coast Guard is implementing activity-based costing at a number of its facilities. Additionally, there are examples of activity based costing being adopted at both the state and local level (Acton and Cotton, 1997; Edds and Nielsen, 2000). Activity-based costing is gaining momentum in the not-for-profit sector (Finkler, 2001). The development of such systems can be viewed as a recognition that managers need relevant causal data to make decisions in an organization be it private, public, or not-for-profit. Nevertheless, the same type of data might be used differently in the three sectors. The private sector manager might use the data to eliminate an unprofitable product line. The public sector manager might use the data to demonstrate to a member of congress that a significant portion of the funds is being spent in a specific district. The not-for-profit manager might use the data to convince the funders that the funds are not being used to generate a profit. Managers from all three sectors might use the data to demonstrate the need for additional resources.

Let us take another example, personnel systems are seen to differ by even those who support arguments of commonality across organizations (Rainey and Bozeman, 2000). Rainey and Bozeman reporting on previous research found that formalization and red tape are more prevalent in the personnel processes of public sector organizations than in private organizations. Let us assume that this finding holds for both the public and private sectors. McLaughlin (1986) argues that personnel systems of not-for-profit organizations are in sort of a limbo between public and private systems. However, regardless of the red tape and formalization, the employee still has a basic need for accurate data such as how many people work for the organization, their qualifications, the tasks assigned, and productivity. Again, how the data are

used may differ from sector to sector. The private sector manager might use the data to determine performance bonuses for the employees. The public sector manager might use the data to argue against privatizing or outsourcing specific functions. The difference here is more likely one of frequency than kind. Managers in all three sectors face bonus and outsourcing decisions. The not-for-profit manager might use the data to convince a donor that the majority of the staff are dedicated to service delivery rather than administration.

Table I lists a number of activities that are found in almost all organizations in all three sectors. The data needed to manage these activities are the same regardless of the sector. The activities listed in Table II can be classified as internal processes that enable the organization to serve its customers. Common activities go beyond these enabling activities. For instance, every organization must manage the segment of the market it is going to serve, manage the services and products it provides, and manage its suppliers. Organizations may have some unique characteristics. However, when one is focusing on the data needed to manage basic activities of an organization, arguing differences obfuscates the need for data that looks very similar regardless of the organization.

A balanced focus

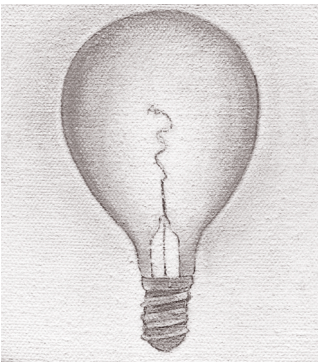
Adapting a statement attributed to Sayre (Allison, 1982) that public, private, and not-for-profit organizations are fundamentally alike in all unimportant aspects might provide a reasonable explanation why some individuals ignore or minimize the recognition and discussion of the

Table II Examples of common activities in organizations	
Comptroller/finance function:	<ul style="list-style-type: none"> ■ Prepare budget ■ Record daily transactions ■ Complete journal entries ■ Reconcile accounts ■ Complete monthly closing of ledger ■ Prepare periodic financial reports ■ Complete annual closing of ledger ■ Prepare annual financial reports ■ Assist with audits
Human resources:	<ul style="list-style-type: none"> ■ Conduct recruitment for vacant positions ■ Hire employees ■ Train employees ■ Provide advice on employee conduct/performance issues ■ Manage benefits program ■ Terminate employees
Information technology:	<ul style="list-style-type: none"> ■ Manage servers ■ Conduct back-ups ■ Purchase software/hardware ■ Install software/hardware ■ Maintain software/hardware
General functions:	<ul style="list-style-type: none"> ■ Manage employees ■ Purchase supplies ■ Make travel arrangements ■ Perform timekeeping functions ■ Maintain facility

similarities across the sectors. If the similarities are seen as unimportant, there is little reason even to mention them. However, if we accept that there is a need for basic data to manage similar activities across organizations, the similarities increase in importance. Tools and techniques are available that can help most any organization. Managers need to be assertive in their search and supported in finding solutions in all sectors that will meet the needs of their stakeholders. All of us, even those whose careers are built upon arguing differences, have a responsibility to help highlight the similarities across organizations.

Concluding comment

The arguments presented in this paper should seem to be a discussion of the obvious. However, what is apparently obvious to some, is not so to others. Informal discussions with managers of public, private, and not-for-profit sector organizations indicate that some of the managers use the arguments about the differences among the three sectors to demonstrate that their organizations are unique and consequently solutions to problems are unique. One of the problems facing any organizational change agent is getting the management and employees of an organization to recognize that problems found there are similar to those in other organizations and that solutions used by other organizations can probably be applied successfully. Framing the organization as unique limits the applicability of available solutions and applications thereby inhibiting useful change. The literature that focuses on high-level differences in the characteristics of the organization unfortunately appears to get translated into differences at all levels in the organization. This paper is simply an attempt to point out that there are commonalities in the need for data across organizations in all sectors of the economy.



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