Public-Private Distinction in Organization Theory:
Focused on Public Organization

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I. Introduction

Scholars have devoted increasing attention to similarities and differences between public and private organizations.

The primary purpose of this paper is to present the comparative literature on these organizations in order to assess the usefulness of the public-private distinction in organization theory. A supplementary purpose is to present a number of propositions about differences in public and private organizations, which have implications for their management. Generally, public and private have been used for centuries in relation to fundamental issues and values in society. Dictionaries cite the origins of public in the Latin word for people, and define it as referring to matters pertaining to the people of a community, nation, or state (Guralnik, V. P., 1980). Private derives from the Latin for deprived or set apart, as in being deprived of public office or set apart from government as a
personal matter. Accordingly, public organizations often have been equated with governmental bureaus, and private organizations have been identified as all other organizations, or as business firms (Peadbody, R. L. and Rourke, F. E., 1965).

However, the blurring of the public and private sectors in most countries show that the concepts are multidimensional, and this in turn complicates the definition.

Actually, organizations are the central actors in contemporary society, the primary instruments that we use to accomplish our social, political, economical, and in many instances, personal goals (David K and William Scott, 1975). In the private sector organizations produce, process, and market the endless variety of consumer goods and services that make our lives more enjoyable. In the public sector, organizations defend us from foreign attack; protect us from criminals, unsafe consumer products, and unhealthy air and water; build and maintain our highways and airports; educate our children; and provide myriad services that enhance the overall quality of life in our society. Individual personal goals - meaningful work, income security, professional advancement, recognition, and growth - also usually require organizational settings for their achievement.

Despite its omnipresence and beneficence, modern organization also has its darker side, for it is equally true that "much of what is bad for man can also only be achieved through modern organization." Illegal and dangerous drugs, widespread oppression and denial of human rights, and toxic chemical wastes are also organizational outputs. For individuals, success in large-scale organizations requires conformity, obedience, and a willingness to subordinate their own goals to those of the organization. From the time of Karl Marx to the present, many writers have charged that the depersonalization and specialization characteristic of modern organizations have carried a high cost to the worker in stress and, ultimately, alienation. In the political system, the necessary reliance on large-scale bureaucratic organizations to implement public policy has raised questions about the responsiveness, representativeness, and accountability of government at all levels. Politicians, the media, and interest groups have frequently alleged that these same organizations are also a major source of waste and inefficiency in the public sector.

However, one evaluates the overall contribution organizations have made to contemporary society, understanding them and how they operate may be one of most important determinants of individual and societal survival, success, and happiness. The role of organization is equally important in public administration and public policy: administration is primarily the management of organizations and people in them, and almost all public policies are implemented by organizations. In contemporary public administration, the continuing scarcity of financial resources makes understanding and improving public organizations essential to the maintenance and improvement of the quality of public service delivery.

II. Common Dimensions

Organization is a comprehensive term encompassing entities as large and diversified as the Department of Defense and General Motors and as small and simple as the single-owner restaurant
employing four people or the Police Department of Wallace, Idaho, which has only three employees. An examination of these contrasting organizations reveals that they share certain common features:

1. They involve two or more people, working to accomplish
2. A common goal or goals through
3. Coordination of activities, which involves
4. Some type of structure

Scott and Mitchell combine these factors to define an organization as "a system of coordinated activities of a group of people working cooperatively toward a common goal under authority and leadership (William G Scott and Terence R. Mitchell, 1976)." Any entity possessing these characteristics is an organization, and organizations vary in size, type and number of goals, structural characteristics, and types created by government. Although public organizations differ from business or private organizations on the specific nature of each or all of these four dimensions, at the most basic level they share these four common dimensions with private sector organizations.

III. Public Versus Private

Initially, neither public administration nor organization theory recognized any essential differences between Public and private administration: what was good(from an organization theory perspective) for General Motors was equally good for the federal government. Woodrow Wilson was one of the earliest and most articulate proponents of the universal applicability of administrative principles and the basic similarity of business and public administration: "The field of administration is a field of business ... administration lies outside the sphere of politics. Administrative questions are not political questions (Woodrow Wilson, 1887)." The obvious distinguishing characteristic of public organizations, their political connection, was thus rendered irrelevant, and the basis was established for a science of administration. To Wilson, politics and the nature of the political system were so separable from administration that even the basic form of government, democratic or authoritarian, had no impact on organizational structure or administration. There could be "but one rule of administration for all governments alike. So far as administrative functions are concerned, all governments have a strong structural likeness; more than that, if they are to be uniformly useful and efficient, they must have a strong structural likeness (p. 216)."

The dichotomy between politics and administration, which dominated public administration theory in the first four decades of the twentieth century, provided the theoretical basis for the application of the principles of scientific management to the public sector. The failure of this approach in public administration might be interpreted as proof of the difference between government and business until one realizes the approach was not especially successful in business wither and was gradually displaced by newer approaches to organization and management. The differences between business and public administration appeared so substantial that the possibility of successfully applying theory developed for one sector to the other seemed minimal (Nicholas Henry, 1975). But no new discrete
theory of public organization developed, and public managers learned and applied techniques developed in the private sector. Matrix organization structures, organization development, management by objectives, and a variety of other approaches developed in the private sector were transplanted into the public sector with the same mixed results they had in the private sector.

Identifying the special characteristics of public organizations has proven difficult. Rainey, Backoff, and Levin analyzed the major approaches that had attempted to differentiate between public and private organizations and noted, "None of these approaches can succeed in drawing a clean line between sectors; there are always intermediate types and overlaps on various dimensions (Hal Rainey, R. Backoff, and Charles Levin, 1976)." Nevertheless, they concluded, "It seems clear that one could identify large groups of organizations which represent a hard core of public and private organizations, in that they are distinct on a number of basic characteristics (and magnitudes) ... It seems reasonable to speak of 'typical' government and business organizations (p.235)." Among the most important differences between public and private organizations that they identify were the following (Table 1):

Table 1. Summary of Literature on Differences Between Public and Private Organizations: Main Points of Consensus

<table>
<thead>
<tr>
<th>Topic</th>
<th>Proposition</th>
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<tbody>
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<td>I. Environmental Factors</td>
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| I-1. Degree of Market Exposure (Reliance on Appropriations) | a. Less market exposure results in less incentive to cost reduction, operating efficiency, effective performance.  
b. Less market exposure results in lower allocational efficiency (reflection of consumer preference, proportioning supply to demand, etc.)  
c. Less market exposure means lower availability of market indicators and information (prices, profits, etc.) |
| I-2. Legal, Formal Constraints (Courts, Legislature, Hierarchy) | a. More constraints on procedures, spheres of operations (less autonomy of managers in making such choices)  
b. Greater tendency to proliferation of formal specifications and controls.  
c. More external sources of formal influence, and greater fragmentation of those sources. |
b. Greater need for support of "constituencies" - client groups, sympathetic formal authorities, etc. |
| II. Organization-Environment Transactions | |
| II-1. Coerciveness ("coercive," "monopolistic," "unavoidable nature of many government activities) | a. More likely that participation in consumption and financing of services will be unavoidable or mandatory. (Government has unique sanction and coercive powers) |
| II-2. Breadth of Impact | a. Broader impact, greater symbolic significance of actions of public administrators. (Wider scope of concern, such as "public interest.") |
| II-4. Unique Public Expectations | a. Greater public expectations that public officials act with more fairness, responsiveness, accountability, and honestly. |
| III. Internal Structures and Processes |
b. Greater vagueness and intangibility of objectives and criteria.  
c. Greater tendency goals to be conflicting (more "tradeoffs"). |
| III-2. Authority Relations and the Role of the Administrator | a. Less decision-making autonomy and flexibility on the part of public administrators.  
b. Weaker, more fragmented authority over subordinates and lower levels. (1. subordinates can bypass, appeal to alternative authorities. 2. Merit system constraints.)  
c. Greater reluctance to delegate, more levels of review, and greater use of formal regulations. (Due to difficulties in supervision and delegation, resulting from III-1-b.)  
d. More political, expository role for top managers. |
b. More frequent turnover of top leaders due to elections and political appointments results in greater disruption of implementation of plans. |
b. Lower valuation of pecuniary incentives by employees. |
| III-5. Personal Characteristics of Employees | a. Variation in personality traits and needs, such as higher dominance and flexibility, higher need for achievement, on part of government managers.  
b. Lower work satisfaction and lower organizational commitment. |


The above Table presents a summary of the points of consensus by stating them as propositions regarding the attributes of a public organization, relative to those of a private organization.

1. Environmental Factors

Environmental factors are external to organizations. Also these are largely out of their control. Most of the relationships of these factors with internal structures and processes will be mentioned in market exposure, legal and formal constraints, and political influences.

Through the environmental factors, we can suggest that the differences between public and private organization. Public organizations are subject to less market exposure than their private counterparts and have less incentives for efficiency. Revenue for public organizations depends on appropriations from political branches, not on market performance. At the same time, public organizations are subject to more formal legal constraints and to political influences from diverse sources and groups.
Market Exposure

Many references cite differences between public and private organizations which are related to involvement or lack of involvement with the economic market as a source of resources, information, and constraints. As a source of revenues and resources, it is argued, the market enforces relatively automatic penalties and rewards, and thus provides incentives to cost reduction, operating efficiency, and effective performance (J. David Roessner, 1975). On the other hand, organizations which obtain resources through an appropriations process in a political context are less subject to such influences; cost reductions might be avoided or deemphasized on a number of multiple, vague criteria of a "public interest" nature. Appropriations may be based largely on past levels, thus creating an incentive to use previous appropriations. Drucker discounts the importance of some of the other distinctions mentioned in this summary, yet stresses the tendencies to ineffectiveness on the part of organizations which acquire resources via "budget allocations" instead of market performance (Peter Drucker, 1973). It is frequently argued that managers of organizations financed by appropriations will seek organizational growth and personal aggrandizement by maximizing appropriations, and thus tend to deemphasize operating efficiency (A. Stockfisch, 1965). The connection between exposure to economic markets and allocational efficiency, in the economist's sense of maximizing satisfaction by matching supply to demand, reflecting consumer preferences. Public organizations are subject to a number of dysfunctions, including less sensitivity to diseconomies of scale, failure to proportion supply to demand, failure to adequately account for consumer preferences, and a number of other failings.

Intermingled with the foregoing ideas about operating and allocational efficiency are frequent references to the importance of the market as a source of relatively clear, quantitative demand indicators, goals, and performance measures (i.e., prices, sales, profits) (Glenn Stahl, 1971). Such relatively clear information is conducive to operating efficiency and effectiveness.

Legal and Formal Constraints

This factor is usually relates to their autonomy and flexibility. It is argued that while private organizations need only obey the law and the regulations of regulatory agencies, government organizations tend to have their purpose, methods, and spheres of operation defined and constrained by law and legally authorized institutions to a much greater degree (Felix A. Nigro and Lloyd A. Nigro, 1973). One effect of these constraints is that public managers have less choices as to entry and withdrawal from various undertakings (Edward C. Banfield).

Political Influences

These propositions are interrelated with those concerning formal influences, but tend to be broader, encompassing not only the multiple formal, institutional constraints, but also the less
formalized processes of influence, such as interest group demands and lobbying, and interventions by individual congressmen. These assertions range from very broad references to the more "political" character of government work to somewhat more specific observations about the effects of greater diversity and intensity of influences on government decision making (Dwight Waldo, 1955). It is argued that these multiple, diverse interests necessitate bargaining, and make objectives and decision-making criteria more complex, due to greater concern for "public opinion" and the reaction of various interests.

2. Organizations–Environmental Transactions

A number of propositions are primarily concerned with characterizing the relationship of the organization to the entities in its environment. Some of these assertions are very similar, in their implications for internal operations, to some of those already noted, but are sufficiently different in approach to be listed separately.

Environmental transactions of public organizations have been identified as more coercive, broader in impact, and more subject to public scrutiny and to expectations that they are responsive, accountable, and fair.

Coerciveness

Sometimes the coercive, monopolistic, or "unavoidable" nature of actions by government and government entities is cited as a basic distinction between public and private organizations (Theodore Lowi, 1969). Individual cannot avoid participation in the financing of most government activities, and in the consumption of many of the outputs of government. Obviously, this proposition can be related to the absence of the market mechanism, which provides for individual choice in the consumption of goods and services. The coercive nature of most government actions might be cited as a fundamental justification for constitutional checks and balances and extensive formal control mechanisms.

Nature of Policy Impacts

There are a number of propositions which might be roughly categorized as references to the greater influence or impact of public sector decisions: Appleby sees government as distinct due to its unique breadth of scope, impact, and consideration (Paul H. Appleby, 1945); Mainzer notes the wider range of concerns in public, as compared to private, administration (Lewis C. Mainzer, 1969); Warnsley and Zald cite the unique symbolic significance of government actions (Gray L. Wamsley and Mayer N. Zald, 1973); Banfield cites the opportunity to participate in large affairs (Edward C. Banfield), and to achieve power and glory, as incentives of greater importance in public than in business organizations.
Public Scrutiny

Government organizations are able to keep fewer secrets than business, and are more subject to outside monitoring. There are indications of increasing public scrutiny of large private corporations, and increasing concern with their impact on the public interest. Actually, there no differences in the public scrutiny of government agencies and private corporations.

Public Expectations

A basic difference between public and private organizations is that public organizations are perceived as being owned by the state and citizens; citizens therefore have rights and expectations they do not have in relation to private organizations. Similarly, Caiden feels that citizens expect more of public administrators in the way of “integrity, fairness, responsiveness, and accountability (no secrets)” (Gerald E. Caiden, 1971).

3. Internal Structures and Processes

For organization, structure is the basic means of achieving goals, defining status relationships, channeling communications, and influencing relationships with external environment. For the individual within an organizations, structure is equally important.

The structure of an organization reflects the way the organization has handled two basic processes: work division and coordination. Work division involves identifying the major activities the organization performs, breaking those activities even further down into tasks and subtasks, and assembling those subtasks into positions.

The resulting structure can be characterized on the basis of three different dimensions: formalization, centralization, and complexity. Formalization refers to the extent to which jobs, activities, and behavior are standardized and to the means by which this standardization is accomplished (Stephen R. Robbins, 1983). Centralization is the degree to which decision-making power and control are concentrated (p. 76), complexity measures the number of different types of occupational specializations employed by the organization, the number of levels in the hierarchy, and the extent of geographic dispersion (p. 47).

Public organizations have vague, multiple goals that are difficult to measure and are frequently conflicting. Equity is as important as efficiency, and authority is likely to be fragmented and weak. Public organizational performance is likely to be characterized by caution and less innovativeness.

Objectives and Evaluation Criteria

The objectives and performance criteria of public sector organizations tend to differ from those of business organizations along at least three dimensions:
(1) Multiplicity and Diversity: The mix of objectives and criteria is said to be more complex. In addition to multiple formal program objectives, there are political feasibility considerations. A number of less explicit criteria such as accountability, openness, and fairness may be enforced through both formal and political mechanisms.

(2) Vagueness and Intangibility: It is noteworthy that the references which were primary concerned with application of systematic and quantitative analysis in the public sector all made a point of the unique difficulties in specifying and quantifying performance measures in the public sector (Harley H. Hinrichs and Graeme M. Taylor, 1972). Drake in particular, present an extensive list of differences, such as the greater difficulty of actually defining the issue for analysis, and the greater difficulty of applying a quantitative model due to the complex interrelationships among government activities (Drake apparently sees the military as similar to business in applicability of quantitative techniques) (Alvin W. Drake, 1972).

(3) Goal Conflict: The aim in this section is not to suggest that businessmen seek only more sales and profits. clearly they, too, are faced with a complex mix of objectives, and with the frequent inadequacies of quantitative measures as representations of the quality of performance. Nevertheless, the literature advances too many observations concerning the greater multiplicity, vagueness, and conflict of objectives of public sector organizations for such propositions to be brushed aside as not potentially significant to the practice of management and preparation for it.

Hierarchical Authority and the Role of the Administrator

The multiple political and legal influences on U.S. government organizations are related to some particular attributes of hierarchical authority in government, which have implications for the role of the administrator. In general, observers regard hierarchical authority as weaker in the Executive Branch of government than in business organizations. More specially, some authors relate the "lack of control" to the ability of subordinated to bypass hierarchical superior by appealing to alternative formal authorities or political constituencies, thus making weaker, more fragmented authority than is usually found in business organizations (Robert T. Golembiewski, 1969). Moreover, there are some assertions that public administrators have less authority and flexibility in making their own decisions than private sector counterparts.

Performance Characteristics

Dahl and Lindblom assert that "agencies" suffer more than "enterprises" from red tape, buck-passing, timidity, and rigidity (Robert A. Dahl and Charles E. Lindblom, 1953). Also the inadequacy of performance measures in government results in risk avoidance by individuals and institutions: success cannot be recognized easily, but mistakes can be singled out and punished. Scheduled disruptions in the form of elections and political appointments tend to interrupt sustained implementation of plans and projects. Thus there are a number of propositions to the effect that
government organizations tend to be characterized by cautiousness, inflexibility, and lack of innovativeness.

**Incentives**

The most important incentives offered to private sector employees are material incentives, primarily money. In government, nonpecuniary incentives such as job security, involvement in important affairs, and power and glory, figure more importantly.

**Personal Characteristics**

Public employees may have higher dominance and flexibility needs and lower work satisfaction and organizational commitment. Top executives have shorter tenure and more limited time perspectives. The nature of goals makes measuring employee performance more difficult (Graham Allison, 1984).

**IV. Conclusion and Implications**

This list of differences appears impressive, and at a minimum it indicates that great caution should be exercise in applying business organization theory to the public sector. However, determining whether the identified differences are actually characteristic of "typical" public or "typical" private organization is complex. The public sector is vast, encompassing organizations that vary tremendously in size, goals, management flexibility, innovativeness, and funding sources. Some public organizations do have specific, measurable goals - fire departments and Internal Revenue Service, for example. Others have vague, multiple, conflicting goals, but so do many private organizations. A for-profit nursing home, for example, may have as goals both making a profit and providing quality nursing and custodial care to patients, and the latter is not only potentially in conflict with the former but also very difficult to quantify and measure. Some public organizations are innovative, such as NASA; some are rigid and inflexible - the department of corrections of most states are prime examples of rigidity. In the private sector, such high-tech firms as IBM, Apple, and Hewlett-Packard are clearly innovative and allow considerable management flexibility; the American steel industry, however, has displayed rigidity and stagnation that puts the most hidebound government bureaucracy to shame, raising the question whether dependence on market transactions does result in greater organizational efficiency.

While most public organizations derive their funding from appropriations, not all do: the U.S. Postal Service, the Tennessee Valley Authority, Conrail, and many local sanitation department charge fees for services. At the state and local level, as tax sources have become less reliable or available, more and more blurred when government contractors are considered.
Even the existence of legal and formal constraints is not quite as distinguished a characteristic as it once seemed. The legal constraints on private business may not be as exacting as those on public organizations, but regulations regarding labor relations, working safety, fair treatment of consumers and competitors, environments of many private organizations.

Organizational environments differ tremendously, but the differences do not depend solely on the "privateness" or "publicness" of the organizations. Some public organizations have stable, peaceful, supportive environments and are subject to minimal public scrutiny or interests; this is typical in those policy arenas, characterized as subgovernments (such as agricultural subsidies and veterans' benefits), where a limited number of participants, congressional subcommittee members and staff, bureaucrats and representatives of affected interest groups controls policymaking and implementation (Randall Ripley and Grace Franklin, 1987).

Other public and private organizations have chaotic, rapidly changing, hostile, complex environments - the Environmental Protection Agency and Hewlett-Packard, for example. Simplicity or complexity of the technology used has little to do with whether an organization is public or private. Time horizons of organizational management range from long-range, planning, careerist orientation (the U.S. Forestry Service, IBM) to crisis orientation and rapid personnel turnover (the new high-tech firms, and inner-city schools).

Similarly, organizations appear to go through a life cycle, at varying speeds, regardless of their publicness or privateness.

Conclusively, there are indications of a number of important differences between public and private organizations, which cannot be ignored in considerations of management research, training, and practice. More importantly, there are reasons to continue public and private comparisons, not in rejection of efforts at general understanding of organizations and their management, but in the effort to supplement it.

Reference


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