CHAPTER 4

PUBLIC AND PRIVATE MANAGEMENT COMPARED

HAL G. RAINEY
YOUNG HAN CHUN

As the topic of public management has developed over the last several decades, many people have taken an interest in whether and how public management differs from management in other settings, such as business firms.[1] All nations face decisions about how to design their public and private sectors, including how to design their roles—which sector is to do what? The similarities and differences between organizations and management in the sectors have important implications for such decisions. A worldwide trend of privatizing governmental activities and government-owned enterprises, for example, has proceeded on the premise that organizations and activities managed under the auspices of the public sector show important differences from those managed privately. Usually, the premise holds that the publicly managed organizations operate less effectively and efficiently, and that privatizing them will remedy their malaise. The privatization movement has involved decisions about trillions of dollars worth of assets around the world, and the question of whether public and private management differ has played an important role in this trend, which has clearly been among the most

significant developments in organizational management around the world in recent decades.

Reform movements, such as the New Public Management movement that has swept through many nations, often propose alternatives that involve applying to governmental management theories and techniques drawn from business management (Ferlie, Pettigrew, Ashburner, and Fitzgerald 1996; Pollitt and Bouckaert 2000). Transporting a technique across sectors raises much-discussed questions about whether one can apply a business technique in a public organization, and whether one must make certain adaptations or adjustments if one does. In addition, comparisons of public versus private management have important implications for administrative theory and analysis in general. Well-designed comparisons can contribute to analysis of a variety of topics in management.

In spite of these claims about the importance of the public–private distinction, the clearly prevailing consensus among scholars and experts on management holds that the distinction is not worth much. Many scholars have argued that the "sectors" involve such vastly diverse sets of management settings that distinctions such as public, private, and non-profit confuse and mislead us. In addition, over the years, major organization theorists have proclaimed that public and private management show more similarities than differences (Simon 1995, 1998). These proclamations reflect a "generic" orientation among many management and organization theorists, who take the position that managers face common challenges in most or all settings, such as leading, motivating, and decision making. Therefore we need to build a general, broadly applicable body of theory, and not one specific to such categories as public, private, or non-profit. Widely used texts on organizations and management commonly make a point of including examples and cases drawn from the business, government, and non-profit sectors (e.g., Daft 2004).

4.1 The Blurring of the Sectors

In addition, for years many people have emphasized the blurred, indistinct boundaries between the private, public, and non-profit "sectors" of national economies.[2] Since human societies formed, there have always been complex relations and interplay between purportedly private economic activity and governmental entities.

This mixing of the sectors for many years has taken various forms and patterns (Dahl and Lindblom 1953). Hybrid forms of organization, such as state-owned enterprises, government corporations, and heavily regulated business firms, mix government auspices and control, with features usually conceived as private economic activity, such as sale of goods or services for a price.[3]

Another pattern of blurring involves contracting-out by governments and other forms of relationship in which government buys from private organizations, or carries out programs and policies by and through them. On their part, nongovernmental organizations often work hard to influence governmental actions and decisions through political means such as lobbying in legislative bodies. Further blurring the sectors, very similar types of organizations, professionals, and work activities occur in all of them. The long list of such organizational forms includes public, private, or hybridized schools, hospitals, universities, transportation organizations, electric and other utilities. Engineers, medical doctors, scientists, accountants, attorneys, security personnel, and numerous other professionals and specialists work in all the sectors. Countless authors have been emphasizing for years that the blurring and sharing of responsibility have been increasing as reform movements in various nations press for more contracting-out and competitive tendering by governments, as well as other forms of government activity by and through nongovernmental organizations.

These complications with the definition of the public, private, and nonprofit sectors and the distinctions among them raise devilish conceptual and methodological problems for those who would seek to clarify and confirm distinctions. The complications also provide justification for those management theorists who express explicit or implicit contempt for such distinctions. Organization theorists have in the past justified efforts to develop empirically based typologies and taxonomies by pointing to the oversimplifications and stereotypes involved in popular discourse about the public, private, and nonprofit sectors. In these research initiatives, organization theorists have never developed a well-confirmed, widely accepted typology or taxonomy of organizations. These studies did, however, establish the fairly obvious point that a public–private distinction will not serve adequately as a general typology of organizations although it may figure in one.[4] In addition, the studies typically found that government organizations did not necessarily cluster together in categories distinct from those in which business organizations clustered (Pugh, Hickson, and Hinings 1969). These studies supported the conclusion that a public–private or government-business distinction does not predict organizational characteristics very well. This evidence put such distinctions into bad repute among organization theorists, who relegate them to the category of "folk" or "commonsense" typologies that can "obscure more than they illuminate" (Hall 2002: 37).

At the same time, however, many political scientists and economists have taken a diametrically opposing position on the public–private distinction. Numerous economists, political scientists, and public administrationists have commonly referred to the distinctive characteristics of government organizations and codified them into theories about the public bureaucracy. Some economists, for example, point out that most government agencies do not sell their outputs on economic markets and assert that this characteristic, among others, causes them to be very different from business firms on many important dimensions (e.g., Barton 1980; Dahl and Lindblom 1953; Downs 1967; Niskanen 1972).

This interesting divergence among major groups of scholars appears to have various sources. Many economists attribute great significance to economic markets in their theories, and this appears to predispose some of them toward the conclusion that the presence or absence of economic markets for the outputs of an organization has a strong influence on the management of that organization. Political scientists interested in public bureaucracy concentrate on analysis of its political context and end up attributing much significance to political influences. Public adminstrationists, focused on such topics as civil services systems and accountability systems for governmental administrators, often come to see these systems as quite distinctive. Organizational sociologists and psychologists, on the other hand, studying processes and people in many different types of organizations, tend to seek and observe commonalities across those settings. The research evidence reviewed below shows points of consensus, but also conflicting findings on some topics. Ultimately, we conclude below that these conflicting findings show the importance of avoiding the over-generalizations to which strong disciplinary orientations can sometimes lead. This interesting divergence among major groups of scholars throws us back into the hunt for ways of clarifying the matter.

4.2 Ways of Defining Public and Private Management

The ambivalence and disagreements arise because people, including scholars, often refer to the public and private categories of organizations in vague and ill-defined ways, and because the two categories include huge, very diverse populations of organizations and members that overlap or resemble each other across the "sectors" in the ways described above. Some scholars have, however, taken useful steps to clarify the distinction.

Half a century ago, Dahl and Lindblom (1953) acknowledged the blurring and overlap among the public and private sectors, but argued that one can differentiate with reasonable clarity between *agencies* and *enterprises*. The former are government organizations and the latter are business firms, which one can locate as the end points on a continuum of government ownership and operation, with government agencies at one extreme and enterprises under private ownership at the other. In between these two extremes, and representing differing mixtures of governmental and nongovernmental control, lie the various hybrid forms

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Dahl and Lindblom (1953) emphasized the distinctions between economic markets and governmental authority (which they called "polyarchy") as alternatives for organizing the economic and social activities of a nation. Markets allow producers and buyers more choice about their transactions and relations, while polyarchies tend to rely on more centralized rules or authoritative directions. Each alternative has strengths and weaknesses (Lindblom 1977). While allowing more freedom of choice, markets can fail to produce public goods and can fail to control externalities.[5] Polyarchies can respond to such market failures, but can create problems due to excessive central control and the inflexibility of centrally developed authoritative directives in relation to local preferences and needs. The organizations under the control of these two broad institutional alternatives, Dahl and Lindblom argued, show tendencies related to their institutional location. More than the enterprises do, they said, the agencies show greater tendencies toward "red tape, rules, and caution." The agencies lack the direct link between sales of their outputs and the revenues they receive that the enterprises have, since the agencies get their money from government funding processes, so people in the agencies have less incentive toward cost-cutting and efficient operations. Thus, Dahl and Lindblom argued that the broad institutional alternatives of markets and political hierarchies determine major characteristics of the organizations most subject to those alternatives, and in turn they asserted about government agencies the view—fairly standard among many economists and in public stereotypes—that the agencies operate less efficiently and with more rules and red tape than business enterprises. Most importantly, however, their analysis showed that one can make a reasonably clear distinction between a core category of public agencies and a core category of private firms.

Wamsley and Zald (1973) took another step in clarifying the distinction by classifying organizations according to whether they are owned and operated under public or private auspices, and whether they receive their financial resources from public or private sources. A typical agency of a general purpose government does not sell a significant proportion of its outputs on economic markets. Many business firms make most of their money through sales, and they usually operate with more independence from governmental authorities than do government agencies. As described earlier, however, hybrid organizations with mixtures of public and private funding and control complicate the effort to clearly separate public and private organizations. When Wamsley and Zald classified organizations according to ownership and funding, however, it helped to clarify the distinction. Their approach designates four categories:

- Publicly owned organizations with public funding (they get their operating funds from government budget allocations), such as Departments of Defense, Departments of State, Governmental Retirement Pension agencies, and police departments.
- Publicly owned organizations with high levels of funding from private sources such as sales or donations, such as state-owned enterprises in many nations.
- Privately owned organizations that get very large proportions of their financial resources from contracts with government or sales to government, or from government subsidies.
- Privately owned organizations that get most or all of their financial resources from private sources such as sales or donations. Business firms in many nations can be placed in this category.

This classification scheme, like others that scholars have attempted, involves oversimplifications. Nevertheless, it further establishes the point that the blurring of the sectors does not preclude us from making a reasonably clear distinction between public and private organizations, which can serve as basis for research to prove or disprove hypotheses about differences between them.

Bozeman (1988) took the analysis still further by trying to array organizations along two continua of "publicness," economic authority and political authority, rather than breaking these two continua into two broad categories as Wamsley and Zald did.[6] He makes the point that in reality management has varying degrees of authority over the financial resources and activities of their organizations, with business firms typically having more than government agencies. Business firms with higher levels of government funding from government contracts, however, will tend to have less independent authority over the way those funds are used. Government agencies tend to have more political authority than business firms, in that they receive mandates carrying such authority from legislative bodies or other government officials, but all types of organizations have varying degrees of such authority.[7]

Everyone should be aware of the complications involved in trying to define and distinguish between public and private management, because such complications reflect the realities of the political economies of contemporary nations around the world. Dahl and Lindblom, Wamsley and Zald, and Bozeman, however, show that we can make reasonably clear distinctions.

4.3 Challenges in Comparing Public with Private Management

Defining a distinction between public and private management does not prove that important differences between them actually exist. We need to consider those supposed differences and the evidence for or against them. First, however, some intriguing challenges in research on public–private comparisons need consideration. Many factors, such as size, task or function, and industry characteristics, can influence an organization and its management more than its publicness or privateness. Research needs to show that these alternative factors do not confuse analysis of differences between public organizations and other types. Ideally, studies would have large, well-designed samples of organizations and their employees, representing many functions and controlling for many variables. Such studies require a lot of resources and, with the exception of one recent example, have been virtually nonexistent.[8]

Some theorize on the basis of assumptions, past literature and research, and their own experiences (Dahl and Lindblom 1953; Downs 1967; Wilson 1989). Other researchers conduct research projects measuring or observing public bureaucracies and draw conclusions about their differences from private organizations. Some concentrate on one agency (Warwick 1975), some on many agencies (Meyer 1979). Although valuable, these studies examine no private organizations directly.

Many executives and managers who have served in both public agencies and private business firms have offered observations about the sharp differences between the two settings (e.g., Blumenthal 1983; Rumsfeld 1983). Other researchers compare sets of public and private organizations or managers. Some compare the managers in small sets of government and business organizations (Buchanan 1974, 1975; Kurland and Egan 1999; Rainey 1979, 1983; Porter and Lawler 1968). Questions remain about how well the small samples represent the full populations. More recent studies with larger and more diverse samples of organizations still leave questions about representing the full populations, but they add more convincing evidence of distinctive aspects of public management (Hickson et al. 1986; Kalleberg et al. 1996; Pandey and Kingsley 2000).

To analyze public versus private delivery of a particular service, many researchers compare public and private organizations within functional categories. They compare public and private hospitals (Dugan 2000; Sloan et al. 2001), utilities (Atkinson and Halversen 1986), schools (Ballou and Podgursky, 1998), airlines (Backkx, Carney, and Gedajlovic 2002), nursing homes (Chou 2002; Luksetich, Edwards and Carroll 2000), job-training centers (Heinrich 2000), bus companies (Pendleton 1999), mental health care facilities (Forder 2000), business schools (Casile and Davis-Blake 2002), and art organizations (Palmer 1998). Somewhat similarly, other studies compare a function, such as management of computers or information technology innovativeness, in government and business organizations (Bretschneider 1990; Corder 2001; Elliot and Tevavichulada, 1999; Moon and Bretschneider 2002). Still others compare state-owned enterprises to private firms (Bordia and Blau 1998; Hickson et al. 1986; Mascarenhas 1989; MacAvoy and McIssac 1989; Rosenblatt and Manheim 1996). They find differences and show that the public–private distinction appears meaningful even when the same general types of organization operate under both auspices. Studies of one functional type, however, may not apply to other functional types.

A few studies compare public and private samples from census data, large-scale social surveys, or national studies (Houston 2000; Kalleberg et al. 1996; Light 2002; Smith and Nock 1980; US Office of Personnel Management 2000). These have great value, but often such aggregated findings prove difficult to relate to the characteristics of specific organizations and the people in them.

The review of different research approaches in the preceding paragraphs reflects an empiricist approach to the comparison of public and private management, as if we can best resolve such comparisons by looking at empirical social scientific studies. This approach actually has some sharp limitations. There is, for example, much literature in public administration that provides analytical discourse (i.e., essays) and normative discourse on such topics as administrative ethics, administrative accountability, and many others. These authors often imply or explicitly argue the distinctive character of public administration, contending for example that public administration involves issues in ethics and accountability very distinct from those in business. They do not subject these arguments to tests using empirical social scientific methods, but such reasoned discourse should be considered part of the body of evidence. It is not covered here due to space constraints.

In addition, there are many points on which public and private management differ in such abundantly obvious ways that to deny the distinctions becomes absurd. In the United States, for example, the compensation levels for executives in nearly all major private firms so thoroughly dwarf those of most public sector executives that the difference is essentially undeniable. Although this difference is greater in the US it exists in many other nations as well. The review below concentrates on the empirical, comparative social scientific research that has been reported, and does not include some of these self-evident distinctions.

4.4 Distinctive Characteristics of Public Management: Common Assertions and Research Findings

In spite of the challenges in designing conclusive research, the stream of assertions and research findings continues. Various reviews have compiled the most frequent arguments and evidence about the distinction between public and private management (Boyne 2002; Perry and Rainey 1988; Rainey 2003; Rainey and Bozeman

2000). The discourse includes a mixture of the types of studies and statements described above. The Appendix summarizes many of the main points in this admixture, combining in the same summary the theoretical positions, the frequent assertions, and the points for which research evidence exists, noting points of consensus and conflict. Many of the sources of the assertions and evidence are cited in the reviews mentioned above. The discussion to follow will cite examples from the many citations in those earlier sources, but concentrate on citing more recent research contributions.

4.4.1 Differences in Operating Environments

Many of the claims about the differences between public and private management refer to distinctions between the operating environments in the two settings. Many parties to the discussion emphasize that, unlike private management, public management typically involves organizations that do not sell their outputs in economic markets.[9] Researchers do not try to prove or disprove this observation because it is self-evident. One needs merely to look at the source of revenues in the financial reports of organizations to confirm this distinction. Researchers studying the goals of business firms have found that executives name "profitability" as the most important goal more frequently than any other goal (Daft 2004: 67), and while no executives from government-owned and government-funded organizations participated in this research, clearly they could not mention profitability as a goal.[10]

The more contentious issues concern the implications of this difference. Some scholars theorize (and many citizens believe) that this distinction weakens or removes the information and incentives provided by economic markets and in turn weakens incentives for cost reduction, operating efficiency, and effective performance (e.g., Dahl and Lindblom 1953; Niskanen 1971; Downs 1967). This position serves as a guiding principle in nations with more capitalistic and free-market economies, and for the privatization and managerialism movements that have swept the world. On the other hand, critics of business firms point to frequent instances of waste and ineffectiveness in those organizations. Also, as described later, many authors record public management successes and efficiencies. Surprisingly little large-sample research directly compares public and private managers on matters concerning the incentives and indicators they face, but numerous forms of indirect or implicit evidence indicate that public managers do often have weaker incentives and information for achieving operational efficiency and certain types of effective performance, as discussed in the sections to follow. As indicated in the Appendix, scholars also assert that their operating environments provide less inducement for public sector managers (compared with their private-sector colleagues), to achieve economic efficiencies through responding to consumer preferences and apportioning supply to demand.[11]

Theorists emphasizing the importance of the presence or absence of economic markets (e.g., Lindblom 1977) argue that in the absence of markets as sources of incentives and controls on public management, other governmental institutions (courts, legislatures, the executive branch, higher levels of government) must use legal and formal constraints to impose external governmental control. This in turn leads to more external controls on the managerial structures and procedures, spheres of operations, and strategic objectives in public management as compared to those in private management, even in heavily regulated firms. Public management depends on politically constituted authorities for authorization of activities and for funding of them, and hence faces a very different operating environment. In addition, many observers emphasize the division of external authority among multiple institutions (as noted above, legislatures, courts, and the chief executive) in democratic republics and other types of government as well, and point to the significance of this division for the goals and operations of public management, as discussed below.

The governmental institutions on which public management depends for authorization and funding respond to political influences. Even in autocratic regimes popular support for a government activity can bolster it and popular opposition can undercut it. Public management often involves cultivation of political support and avoiding opposition not just from the formal authorities but from constituencies such as influential interest groups, and from the media, public opinion, and other less formally authorized political influences.

4.4.2 Distinctive Transactions with the Operating Environment

Scholars and experts have often linked these differences in operating context to distinct forms of transaction with the external environment. Government, they observe, produces goods and services that private markets will not adequately provide, such as public goods and the management of externalities, and these goods cannot be sold on markets at a unit price. Others emphasize that government activity is often more monopolistic, coercive, and unavoidable than private-sector activities, with a greater breadth of impact, and this necessitates more oversight and controls on public management by other government authorities. Observers also frequently claim that government organizations operate under greater public scrutiny and with unique public expectations for fairness, openness, accountability, and honesty.

4.4.3 Distinctive Public Management Goals, Roles, Structures and Processes

Most of the observations about the distinctive environment and environmental transactions for public management link them to further distinctions in goals, managerial roles, structures and processes.

Goals and Performance Criteria. Certainly the most frequently repeated observation about public management contends that such conditions as the absence of the market, the production of goods and services not readily valued at a market price, and value-laden expectations for accountability, fairness, openness, and honesty as well as performance complicate the goals and evaluation criteria of public organizations. Goals and performance criteria are purportedly more diverse, conflict more often (and entail more difficult trade-offs), and are more intangible and harder to measure than is the case for private firms (see Appendix, III.1). Virtually everyone writing about public management makes these observations in some form. Numerous examples illustrate them, including vague and conflicting mandates for many government agencies, conflicting interest group pressures, and the scarcity of clear performance indicators. Executives commenting on their experiences in government compared to their experiences in industry frequently make such observations (Blumenthal 1983; Rumsfeld 1983). On the other hand, executives in industry also face intense goal conflicts and problems with clarity of goals, while the goals of some public management activities—collect taxes, send out benefit checks, issue licenses—do not seem vastly more complex than goals that many business firms pursue. Surprisingly little large-sample research provides evidence for these claims about distinctively vague, multiple, and conflicting goals in public management. Two surveys that asked managers questions about whether their organizations had clear goals found no differences between public and private managers in their answers to such questions (see Rainey 2003: 134). Many public managers must definitely be prepared to deal with vague, multiple, and conflicting goals, but just how distinctive public management is on such dimensions remains an open question in need of further analysis and evidence.

General Managerial Roles. In spite of a broad consensus that public and private management involve many similar functions and activities, numerous studies have found distinctive aspects of the managerial roles in the public sector. Very diverse in methodology, the evidence tends to support the conclusions summarized in III.2 of the Appendix (e.g., Atwater and Wright 1996; Bogg and Cooper 1995; Dargie 1998, 2000; Hooijberg and Choi 2001; Kurke and Aldrich 1983; Lau, Pavett, and Newman 1980; Mintzberg 1972; Palmer 1998; Porter and Van Maanen 1983). Obviously there will be wide variations among the roles of managers in public, private, and nonprofit settings. A manager's involvement in external relations, for example, will depend heavily on organizational level and assignment, with high-level

executives more likely then middle managers to interact with leaders from external institutions. In government, many managers will work in isolation from media coverage, direct pressures from interest groups and legislators, and other forms of "political" involvement. The evidence does indicate, however, that many managers in government, such as higher-level politically elected executives and politically appointed agency executives, will play roles that reflect the public and political nature of their setting, involving the sorts of activities indicated in III.2 of the Appendix.

Administrative Authority. Closely related to the assertions and evidence about managerial roles are the observations regarding administrative authority summarized in III.3 of the Appendix. Various experienced observers in several case studies have concluded that the external institutional oversight and control, the constraining administrative systems (such as complex civil service procedures), and the political dynamics of the operating environment, leave public managers with less authority over their organizations than their private sector counterparts (e.g., Lynn 1981, 1987; Warwick 1975). The constraints also make it hard to produce results, according to some observers. In his case study of a set of federal bureau chiefs, Kaufman (1979: 35) concluded that they "make their mark in inches, not in miles," and achieve modest results at best. Subordinates and subunits may have external political alliances and civil service system protections that give them relative autonomy from higher levels. Striving for control because of the political pressures on them but lacking clear performance measures, high-level public managers, according to some observers, become reluctant to delegate authority and inclined to establish even further hierarchical controls and reviews of lower level decisions. Another constraint can arise from frequent turnover of top executives in many political systems, due to elections and appointments of new political appointees in the administrative hierarchy. The frequent turnover allegedly disrupts innovation and change (e.g., Warwick 1975).

In addition to the references cited in the preceding section, numerous studies comparing public and private managers and various forms of evidence—including additional studies cited in sections below—indicate the constrained, shared authority of many public managers, and the need for them to prepare for such roles (e.g., Bogg and Cooper 1995; Atwater and Wright 1996). On the other hand, as described later, in the last two decades a genre of literature has developed that includes numerous books and articles reporting evidence that public managers often thrive in their roles and lead innovative, well-performing organizations and subordinates. In addition, at least one comparison of a large sample of government managers to a large sample of business managers found that the government managers expressed less preference for new and additional rules, a finding that does not support the conclusion that public managers have a stronger propensity than private managers to initiate new rules and hierarchical controls (Bozeman and Rainey 1998).

Organizational structure. For nearly two centuries at least, satirists have ridiculed governmental bureaucracy, and have contributed to the widespread belief that government agencies tend toward particularly complex and constraining structural arrangements and a propensity towards "red tape." Some economists and political scientists have essentially codified this view into their theories of public bureaucracy (Dahl and Lindblom 1953; Downs 1967; Niskanen 1971; Warwick 1975). Numerous studies, however, have produced mixed findings as to whether public managers work with structures very different from those of private firms. A diverse array of studies have found various structural differences, but not necessarily differences indicating more "bureaucracy" in public organizations (see Rainey, 2003: 202–9). A number of surveys have found that public managers report higher levels of "red tape" and procedural delays than do managers in private firms (see Bozeman 2000). A number of studies also find that public managers report higher levels of formalization, centralization, or similar dimensions in their organizations than do private managers, although the public–private differences are usually not very large (e.g., Kalleberg, Knoke, Marsden, and Spaeth 1996: 840; Light 2002; Rainey, Pandey, and Bozeman 1995) and some studies find no difference (Kurland and Egan 1999).

As described below, various surveys find that the largest differences between public and private managers show up when they respond to questions about procedural delays and structural constraints in certain areas, such as personnel management and purchasing/procurement. In most governments, central agencies tend to establish personnel and purchasing rules and policies and to oversee these activities in the other agencies. The pattern of findings supports the interpretation that government organizations tend towards more formalization, rule intensity, and "red tape" than do private firms, but not nearly to as great a degree as many theorists have predicted. In activities where external agencies—such as those concerned with personnel and purchasing—establish and oversee rules and policies for the agencies in a government, however, public managers appear to face significantly higher levels of structural formalization and centralization.

Strategic Decision-Making Processes. The differences in organizational environments and in managerial roles discussed above imply or explicitly relate to observations about differences in decision processes in public and private management of the sort summarized in III.5 of the Appendix. While some studies report mixed support for such conclusions (Nutt 2000), a number of studies support them (Hickson, Butler, Cray, Mallory, and Wilson 1986; Nutt 1999; Richardson 1998; Schwenk 1990; Tan 2002).

Incentives and Incentive Structures. In the many surveys of public and private managers, the sharpest differences between the two groups come in their responses to questions about constraints in incentive structures—about whether it is difficult or relatively easy under the rules governing their organizations to base a person's pay, promotion, or disciplinary actions on their performance. A number of surveys at different points in time, different levels of government, and in different nations find that public managers report much more constraint and difficulty in tying pay, promotion, and discipline (including firing a person) to performance than do private managers (e.g., Atwater and Wright 1996; Kurland and Egan 1999; Porter and Lawler 1968; and additional references in Rainey and Bozeman 2000 or Rainey 2003). Many of these same studies find that public managers and employees, as compared to their private-sector counterparts, report a weaker relationship between their performance and pay, promotion opportunities, and job security. Efforts in many different nations in the last two decades to install "pay for performance" procedures for government employees and to introduce other "flexibilities" into their civil service systems reflect policy makers' responses to such views, often voiced in public managers' complaints about the systems in which they work.

Work-related values and attitudes. For years, an abundance of research has found that samples of public managers and employees differ from their private counterparts in their work-related values and attitudes in the ways summarized in III.7 of the Appendix. The research includes studies that differ widely in method, samples, and the values and attitudes assessed, and includes studies that find no differences on one or more of the values and attitudes mentioned in III.7, such as the value placed on pay (Crewson 1997). While critics frequently allege that civil service protections and the personnel constraints mentioned above attract employees seeking job security to the public sector, the results of public–private comparisons of attitudes about job security tend to be mixed (e.g., Karl and Sutton 1998). Overall, however, numerous studies tend to find that many public-sector managers and employees express a lower valuation of financial incentives as an ultimate goal in work, higher levels of altruistic and public service motives, higher valuation of opportunities for meaningful work and work that affects important public outcomes. Higher level managers express higher levels of these motives and values than rank-and-file employees in the public sector (e.g., Jurkiewicz, Massey, and Brown 1998; Houston 2000; see Rainey 2003: 237–243). In addition, a growing body of research on public service motivation over the last decade suggests special patterns of motivation in public and nonprofit organizations that can produce levels of motivation and effort comparable to those among private sector employees, or higher (e.g., François 2000; Houston 2000; Perry 1996, 2000; Simon 1995, 1998).

Since the 1960s, numerous surveys have also compared the work-related attitudes of public and private sector respondents, on topics such as work satisfaction, and have consistently found that public sector managers and employees tend to respond to general or global questions (e.g., "In general, I like my job.") in ways that express equal, sometimes slightly greater, or sometimes slightly lower general satisfaction than private sector respondents. Studies in various nations, however, have found that the public sector respondents expressed somewhat lower levels of satisfaction with specific facets of their work, such as managers' dissatisfaction with their autonomy or sense of their impact on their organization, and employees' dissatisfaction with their supervisors (e.g., Bogg and Cooper 1995; Bordia and Blau 1998; Buchanan 1974, 1975; Kurland and Egan 1999; Paine, Carroll, and Leete 1966; Porter 1962). The public sector respondents tend to be the ones expressing lower satisfaction with some aspect of their work, and for some of these differences managers' responses tend to be consistent with differences discussed in preceding sections (e.g., the external oversight and interventions appear to explain the public sector managers' lower level of satisfaction with their autonomy in some studies). These results tend to support the conclusion that public sector managers and employees express levels of general work satisfaction as high or sometimes somewhat higher than private sector counterparts, but that some specific frustrations or demands of work in the public sector frequently show up in work satisfaction comparisons.

4.4.4 Comparative Performance of Public and Private Management

The comparative performance of public and private management, organizations, and employees figures as the most significant and controversial issue of all. Many people feel strongly that they know what to conclude about it, even though it turns out to be a very difficult issue to resolve. One encounters very strongly held but diametrically opposing conclusions. For years, public opinion surveys in various nations have found that the majority of respondents express the opinion that government operates less efficiently and effectively than business (e.g., Katz, Gutek, Kahn, and Barton 1975; Lipset and Schneider 1987; Peters 1984: 44–6). Among scholars and professionals one finds groups and schools virtually founded on this same premise about superiority of business performance and by implication the premise that business management outperforms public management. The "public choice" school in economics, and economists such as Milton Friedman represent such a view (e.g., Downs 1967; Niskanen 1971; Tullock, Seldon, and Brady 2002), as do numerous treatises on the public bureaucracy by political scientists (e.g., Barton 1980; Warwick 1975). This general view of public management as inferior to business management and in need of improvement has fueled reform movements in nations around the world that continue to this day, such as the New Public Management reforms in various nations. On the other hand, as described below, a stream of books and articles in the last two decades have claimed that public management performs very well, and often just as well or even better than private business in many instances.

As indicated in the Appendix, some of this debate turns on questions about whether public managers and employees have lower levels of incentive and

motivation, less innovativeness and more cautiousness, and hence lower levels of individual performance, than people in business. As described earlier, a number of surveys have found that public managers and employees report that they perceive weaker linkages between their performance and incentives such as pay, promotion, and job security (including the prospect of being fired), compared with their private sector counterparts. The public sector respondents also report other constraints on incentives, such as elaborate rules protecting public employees from discipline and discharge.

Whether these and other conditions, such as intense political oversight, make public managers and employees cautious and risk averse, has received a lot of attention from researchers, with mixed results. Surveys in several nations (such as the US, the UK, Sweden, and Israel) have found that public managers and employees, compared to private sector respondents, express similar levels of receptivity to innovation, reform, and change (Elliot and Tevavichulada 1999; Rainey 1983; Rosenblatt and Mannheim 1996; Wise 1999), and perceive similar levels of risk-taking in their organizations (e.g., Bozeman and Kingsley 1998). Golembiewski (1985) and Robertson and Seneviratne (1995) report evidence of similar success rates for organizational development and planned change initiatives in samples of public and private organizations. In addition, for years authors have described numerous examples of innovations and "revitalization" in government agencies and programs (e.g., Altshuler and Behn 1997; Donahue 1997). On the other hand, some recent studies have found that public managers express less enthusiasm and optimism about organizational change and reform initiatives than do their private sector counterparts (e.g., Boyne, Jenkins, and Poole 1999; Doyle, Claydon, and Buchanan 2000; Lozeau, Langley, and Denis 2002; Denis, Langley, and Cazale 1996). A key distinction in the various studies about dispositions toward change and innovation appears to be whether the public sector respondents are asked for their views about changes generated within their organizations, as opposed to changes initiated or imposed externally, such as a general reform initiative mandated by a legislative body for all agencies in a government. Public management appears for obvious reasons to be more frequently subject to such externally imposed or mandated changes, and public sector respondents tend to express less enthusiasm and support for these types of change than for changes originating within their organizations.

Many of the assertions about the distinctive aspects of public management imply or aggressively claim that individuals in the public sector will display lower motivation and performance than people in business. One encounters difficulties in trying to resolve these claims, because organizational psychologists have never developed a well-validated questionnaire measure of motivation and one faces obvious problems in seeking to compare the individual performances of people working in different jobs in the public and private sectors. In numerous surveys over the years, people in public management have reported high levels of motivation and effort, levels comparable to respondents from business organizations (among many examples, see US Office of Personnel Management 2003; Kilpatrick, Cummings, and Jennings 1964: 607; Rainey 1983). For example, the US Office of Personnel Management (2003) survey of US federal employees found that 91 percent of them believe the work they do is important, and 81 percent believe that they do work of high quality, a percentage that approximates the 83 percent of respondents in a survey of private sector managers and employees who believe that they do work of high quality. On the other hand, when government employees respond to questions that focus less directly on their own motivation and effort, they often express more negative views about such matters. For example, fewer than half of the respondents to the USOPM survey agreed that awards in their agency depend on how well employees do their jobs. Only 27 percent agreed that steps are taken to deal with poor performers and only 36 percent agreed that their leaders generate high levels of motivation and commitment. Langbein and Lewis (1998) compared survey responses by engineers in the public, private, non-profit, and private defense-related firms and found evidence of lower productivity among the public and private defense-related engineers than among those in non-defense-related private firms; they also found that the public and non-profit sector engineers were significantly underpaid compared to their private sector counterparts. In these survey results and many others, people in public management settings report that they display high levels of motivation and effort, but they also often express concerns that appear to reflect the public sector context, such as concerns that the civil service personnel system may protect poor performers more than it should, and that rewards such as pay are not based on individual performance as much as they should be (also see Light 2002).

Whether or not people in the public sector have levels of motivation and individual performance comparable to those in business, there remains the question of whether private sector organizations simply outperform government organizations on such criteria as operating efficiency and the general quality of their products and services. This, too, is a difficult question to resolve. Some Nobel Laureates in economics, such as Milton Friedman and James Buchanan, take the position that free markets and freedom of choice produce generally superior outcomes to those produced by government, and by implication that public management and government organizations will not function as well as private firms and their management. On the other hand, the late Nobel Laureate Herbert Simon (1998: 11) flatly asserted that it is false to claim that "public and non-profit organizations cannot, and on average do not, operate as efficiently as private businesses." The diametrically opposing views of Nobel Laureates in economics reflect the problems in comparing two diverse populations of organizations with dissimilar products and services, and the absence of such measures as profit and sales indicators for most public organizations.

On some general performance criteria public and private management seem quite similar. For example, the American Customer Satisfaction Index (ACSI) has provided customer satisfaction scores for 170 business firms and 30 US federal agencies (American Society for Quality 2001). In 1999, the average score for the business firms was about 3 points higher, on a 100-point scale, than the average score for the federal agencies. In 2001, however, the average for the federal agencies, at 72.1, exceeded the average of 70.0 for the business firms. Customer satisfaction is but one of many measures of performance, but such comparisons suggest that public management quite frequently performs at least as well as private management on important performance criteria.

Much more often, however, researchers conduct before-and-after studies of privatization (such as an ownership change from a state-owned enterprise to a privately owned enterprise) or contracting-out by the public sector, or cross-sectional studies of public and private organizations engaged in the same type of activity. Proponents of privatization report strong and consistent findings in favor of private business, from all these types of study. Savas (2000: ch. 6) reports consistent findings of cost savings as a result of contracting-out, with comparable or better quality of service. He also reports superior economic performance by private forms of organization or service delivery as compared to state-owned enterprise or government service delivery, and of improved performance of government activities that are taken private. Many such studies involving different nations and types of service continue to appear (Backkx, Carney, and Gedajlovic 2002; Boubakri and Cossett 1998; Heinrich 2000; Ballou and Podgursky 1998).

On the other hand, other researchers report either no evidence of private sector superiority, or mixed evidence. Hodge (2000) reports evidence from a large international meta-analysis of contracting-out situations that contracting-out by governments generally produces cost savings, but only in the two service areas of refuse collection and building maintenance. He finds no clear evidence of improvements in service quality. Other recent studies covering many nations have also reported mixed or limited evidence of financial and service improvements due to privatization or public–private status (Villalonga 2000; Parker 1995; Pendleton 1999; Becker, Dluhy, and Topinka 2001; Chou 2002; Luksetich, Edwards, and Carroll 2000; Morris and Helburn 2000; Durant, Legge, and Moussios 1998). At least in terms of the number of studies reporting superior results for private or privatized forms, the weight of the evidence appears clearly in favor of the conclusion that private forms of organization tend to have lower costs and greater economic efficiencies, without general losses in service quality. The continuing appearance, however, of mixed findings or findings of limited improvements or superiority of private forms reminds us that privatization can have many pitfalls and troublesome contingencies. Private management does not necessarily guarantee universal superiority over public management (Sclar 2000).

In addition, in recent years a genre of literature has developed that includes numerous books and articles about very effective public management, many of which draw on evidence from actual instances (for example, Ban 1995; Behn 1991; Borins 1998; Cohen and Eimicke 1995; Doig and Hargrove 1987; Holzer and Callahan 1998; Popovich 1998; Riccucci 1995). Regardless of whether private sector management might have some general or on-average superiority on certain types of performance criteria, these authors mount a strong claim that examples and evidence of excellence in public management abound.

4.5 Conclusions

This chapter has reviewed the claims and assertions about differences between public and private management, and sought to assess them with a review of research findings. Ultimately both sides in the continuing controversy over whether public and private management differ get to be right, in a sense. The evidence indicates points on which the two domains of management do not differ significantly, or in the ways certain claims and stereotypes would suggest. These findings support those who object to the distinction and who, with great justification, argue the applicability of general management theory and techniques to public management. The review also shows, however, a number of points of interesting and important differences between the two categories of management, knowledge of which can aid the understanding and practice of public management.

For example, the weight of the evidence indicates that most public managers will face conditions much more strongly influenced by the governmental institutions and processes designed to direct them and hold them accountable, and by the goals of producing public goods and services in the absence of profit indicators and incentives, than will most managers in business firms. At higher levels of management and in certain externally oriented managerial roles at lower levels, public managers will be more engaged with, and constrained by, political and governmental processes such as nurturing support from interest groups and managing relations with legislative bodies and the chief executive. In other managerial roles less directly in contact with such political and governmental processes, public managers will still confront influences from those sources, such as complex governmental systems for purchasing and procurement, and for personnel administration.

In relation to this last point, we have substantial evidence of greater concerns among public managers, compared to their counterparts in business firms, about complex administrative rules and "red tape." The public managers perceive, for example, more problems with personnel administration, such as complexities in the rules about pay and discipline that weaken relations between performance and such incentives. They more often report concerns about the motivation and performance of their co-workers. On the other hand, they reports levels of their own motivation and general work satisfaction that differ very little from those of private sector counterparts, and they tend to express higher levels of altruistic and public service motivation. These seemingly rather contradictory findings actually point to the sensible conclusion that public managers face greater challenges in managing their administrative systems in certain senses, such as in managing pay and discipline systems, but that we should avoid over-generalizing about such distinctions. The challenges may be greater in certain ways, but the research is continuing to indicate alternative incentives that can induce high levels of motivation in public organizations.

Similarly, the seeming contradictions in the body of evidence about the relative performance of public and private organizations actually points to constructive conclusions. Most published studies report higher levels of operating efficiency and lower costs on the part of private sector providers compared with similar public sector activities, yet other studies find no such differences or find that the superiority of the private firms is limited to certain service areas. Such findings support the conclusion that management in many private firms does generally have advantages over public management, in achieving operating efficiencies, but not always. These findings, in turn, are leading to the development of a more contingent approach to privatization of public services through contracting-out, in which researchers seek to identify the conditions under which such contracting-out can produce efficiencies. For example, the literature on the topic and governmental policies about it are increasingly emphasizing competition as a key to making contracting-out effective. In a similar pattern, the contradictory conclusions about the general performance of public and private management—with some economists positing inherent weakness in public management and pointing to evidence of it, with others denying such a difference and still others describing patterns of excellence in public management—support the conclusion that private management has certain operating advantages over public management but that we should avoid overstating and over-generalizing such a conclusion. The continuing challenge is to determine when, where, and how public management performs well, when it does, and this body of research continues to develop in ways that help in that quest.

APPENDIX

Distinctive Characteristics of Public Management: Common Assertions and Research Findings

I. Distinctive Environmental Factors

I.1. Absence of economic markets for outputs; reliance on governmental appropriations for financial resources.

- Lower incentives for public managers to achieve cost reduction, operating efficiency, and effective performance.
- Less ability for public managers to achieve economic efficiency in allocating resources (weaker reflection of consumer preferences, less proportioning of supply to demand).
- Public managers have less availability of relatively clear market indicators and information (prices, profits, market share) for use in managerial decisions.

I.2. External control by politically constituted authority: Presence of more elaborate and intensive formal, legal constraints on public managers as a result of oversight by legislative branch, executive branch hierarchy and oversight agencies, and courts.

- Public management operates under more constraints on domains of operation and on managerial procedures (public managers have less autonomy in making such choices), and under more formal administrative controls.
- In democratic republics as well as some other types of governments, public managers work under the authority of multiple formal authorities and influences, with greater fragmentation among them, than private sector managers.

I.3. Presence of more intensive external political influences.

- Greater diversity and intensity of external informal political influences on decisions (political bargaining and lobbying; public opinion; interest-group, client, and constituent pressures).
- Greater need for political support from client groups, constituencies, and formal authorities in order to obtain appropriations and authorization for actions.

II. Organization—Environment Transactions

II. 1. Public organizations and managers are often involved in production of public goods, handling of significant externalities, or other activities in which private organizations do not readily engage.
II.2. Government activities are often coercive, monopolistic, or unavoidable. Government has unique sanctioning and coercive power and often acts as sole provider of certain services and functions. Participation in the consumption and financing of governmental activities is often mandatory.
II.3. Government activities often have a broader impact and greater symbolic significance. There is a broader scope of concern, such as for general public interest criteria.

II.4. Public managers often operate under greater public scrutiny than do private sector managers, from news media, interest groups, and oversight authorities.
II.5. Public managers face stronger expectations for fairness, responsiveness, honesty, openness, and public accountability than do private sector managers.

III. Organizational Roles, Structures, and Processes

The following distinctive characteristics of organizational roles, structures, and processes have been frequently asserted to result from the distinctions cited under I and II. More recently, distinctions of this nature have been analyzed in research with varying results.

III.1. Greater goal ambiguity, multiplicity, and conflict.

- Greater vagueness, intangibility, or difficulty in measuring goals and performance criteria; the goals are more debatable and value-laden (for example, defense readiness, public safety, a clean environment, better living standards for the poor and unemployed).
- Greater multiplicity of goals and criteria (efficiency, public accountability and openness, political responsiveness, fairness and due process, social equity and distributional criteria, moral correctness of behavior).
- Greater tendency of the goals to be conflicting, to involve more trade-offs (efficiency versus openness to public scrutiny, efficiency versus due process and social equity, conflicting demands of diverse constituencies and political authorities).

III.2. Distinctive features of general managerial roles.

- Numerous studies have found that public managers' general roles involve many of the same functions and role categories as those of managers in other settings but with some distinctive features: a more political, expository role, involving more meetings with and interventions by external interest groups and political authorities; more crisis management and "fire drills"; greater challenge to balance external political relations with internal management functions.

III.3. Distinctive aspects of administrative authority and leadership practices.

- Public managers have less decision-making autonomy and flexibility because of elaborate institutional constraints and external political influences. They must contend with more external interventions, interruptions, constraints.
- Public managers have weaker authority over subordinates and lower levels as a result of institutional constraints (for example, civil service personnel systems, purchasing and procurement systems) and external political alliances of subunits and subordinates (with interest groups, legislators).
- Higher-level public managers show greater reluctance to delegate authority and a tendency to establish more levels of review and approval and to make greater use of formal regulations to control lower levels.
- More frequent turnover of top leaders due to elections and political appointments causes more difficulty in implementing plans and innovations.
- Recent counterpoint studies describe entrepreneurial behaviors and managerial excellence by public managers.

III.4. Organizational structure.

- Numerous assertions that public organizations are subject to more red tape, more elaborate bureaucratic structures.
- Empirical studies report mixed results, some supporting the assertions about red tape, some not supporting them. Numerous studies find some structural distinctions for public forms of organizations, although not necessarily more bureaucratic structuring.

III.5. Strategic decision-making processes.

- Several studies indicate that strategic decision-making processes in public organizations can be generally similar to those in other settings but are more likely to be subject to interventions, interruptions, and greater involvement of external authorities and interest groups.

III.6. Differences in incentives and incentive structures.

- Numerous studies show that public managers and employees perceive greater administrative constraints on the administration of extrinsic incentives such as pay, promotion, and disciplinary action than do their counterparts in private organizations.
- Numerous surveys indicate that public managers and employees perceive weaker relations between performance and extrinsic rewards such as pay, promotion, and job security than do their private sector counterparts. These studies find no clear relationship between such perceptions and employee performance—they find no strong evidence that such perceptions weaken performance. The studies indicate a compensating effect of other motives and incentives (see III.7 below) such as public service motives, altruistic motives, involvement in important work and other intrinsic incentives for public employees.

III.7. Individual characteristics, work-related attitudes and behaviors.

- Numerous studies have found different work-related values on the part of public managers and employees, such as lower valuation of monetary incentives and higher levels of public service motivation, altruistic motives, sense of involvement in worthwhile work, and sense of influence on important public policy decisions than their private sector counterparts. These differences between the public and private sectors increase at higher managerial and executive levels.
- Numerous highly diverse studies have found lower levels of work satisfaction among public than among private managers and employees. The level of satisfaction among public sector samples is generally high and on general satisfaction questions comparable to that of private sector respondents. Many studies, however, find that public sector respondents show lower levels of satisfaction with certain facets of their work, such as the autonomy they are allowed in their jobs, and with their supervisors.

III.8. Differences in organizational and individual performance.

- Numerous authors and observers assert that public organizations and employees are cautious and not innovative. The research evidence is mixed. Some surveys find that public employees do not differ from private sector employees in self-reported receptivity to change and innovation.
- Government managers and employees self-report high levels of motivation and effort in their work, and report levels as high as the levels reported by private sector managers and employees. On the other hand, survey respondents in government tend to report greater concerns that poor performers are not effectively corrected or discharged.
- Numerous studies indicate that public forms of various types of organizations tend to be less efficient in providing services than their private counterparts, although results tend to be inconclusive in some studies and for certain types of organizations and activities. Other authors strongly defend the efficiency and general performance of public organizations, citing various forms of evidence.

Notes

1. In this chapter, "public management" will refer to a broad domain of scholarly thought and activity, as well practical applied thought and activity, pertaining to governmental organizations, programs, and activities at all levels of government. "Public management" will refer to people and their behaviors at all levels in those organizations, including people that we might refer to as executives, leaders, managers, members, subordinates, employees, and to research and theory from organization theory and organizational psychology and behavior. Material on all these topics is pertinent to public and private management and their comparison. For example, one finds in the relevant literature a set of studies comparing the organizational structure of public and private organizations, and one might ask whether studies of organizational structure are studies of management. The use of the public management term here assumes that they do, because structure and other organizational characteristics form the context in which management takes place and often reflects the actions and decisions of managers. One also finds many comparisons of survey responses of public and private employees below the managerial level. The chapter will treat such studies as part of the domain of public management. Many of the distinctions mentioned above, such as differences in organizational level, are often extremely important differences, but are all part of the research, theory, and thought relevant to comparing public and private management.
2. One does encounter ideologues who indicate a variant of this perspective, when they express the remarkable belief that privatization and contracting-out by government are original and assuredly effective alternatives for governments. One hopes for their sake that they are not truly ignorant of the history of such alternatives across the centuries, including a history of fairly frequent problems such as corruption on both sides of the arrangement and poor performance by the contractors. Instead, one hopes for their sake that they are referring to the expansion and proliferation of these alternatives beyond their historic levels, and into new areas of public service and public policy where they had not previously been used. Even so, they display either poor memory or ideological zeal when they tout privatization as a panacea for poor performance by governments.
3. Experts on such hybrid organizations have observed for years that decision-makers in government follow no clear policy, typology, or nomenclature in establishing and designing such organizations (e.g., Seidman, 1998).
4. Blau and Scott (1962), for example, proposed a typology of commonweal, business, service and mutual benefit organizations, in which the commonweal organizations included public agencies and the business categories obviously included business firms.

5. See Lindblom (1977, Chap. 6) for a discussion of public goods and other market defects.
6. See Antonsen and Jorgensen (1997) for another, original operationalization of "publicness."
7. See Perry and Rainey (1988) for another effort to define the differences between public, private, and hybrid organizations.
8. Kalleberg, Knoke, Marsden, and Spaeth (1996) report their research as the first organizational study employing a national probability sample. They found that public, private, and nonprofit categories of organization provided some of the significant findings of differences in structural characteristics that they measured.
9. Obviously, this observation may not apply to hybrid forms of organization such as state-owned enterprises and government corporations or authorities that charge customers for their products and services. In many cases, however, such organizations actually operate under greater oversight or influence from political authorities and actors, as a result of government ownership or government participation in their ownership. Among many examples of this point are those nations where political authorities have employed state-owned enterprises for economic development objectives, such as providing jobs in economically depressed regions. This diminishes the importance of profitability in relation to such objectives, thus making the organizations hybrid not just in organizational form, but in operating objectives.
10. The National Organization Survey (Kalleberg et al. 1996) included questions about sales and other economic market indicators. These applied only to the private firms responding to the survey, and the data set contains no responses to these questions for the public organizations in the sample.
11. Many important developments in political science and economics, such as the influential field of public choice economics, have been virtually founded on observations such as these, and the research and debates on such matters are so elaborate that this chapter cannot adequately cover them.

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