Public Organisations Management: Distinction, Effectiveness, International Experience

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The article analyses the main peculiarities of public and organisations’ management. Business and public organisations, working in the same environment, operate different systems of management.

Efficiency is one of the essential differences between public and private organisations. While efficiency in the case of private firm can usually be measured by comparing the amount of resources used for production and the amount of outcome produced it is not the same with public organisations.

As underlying and fundamental aim of the new public management (NPM) reform program is to transform management of public organisations into a business-like management. NPM incorporates the importation of private sector management systems and techniques into the public services.

Keywords: public organisations, private organisations, new public management, efficiency, differences, goals.

Introduction

Business and public organisations, working in the same environment, operate different systems of management. In this way there appears the demand of analysing the activity of those sectors as well as their peculiarities and differences.

Free-market economy raises new requirements to the public management. New public management is trying to adopt the efficient business organisations management elements in public administration management.


While there is a considerable agreement that during the last decade the government’s sphere of action has been expanding, not everyone agrees that its efficiency is sufficient. Discussion on the efficiency of public bureaucracy almost inevitably involves comparing it with private sector management. A superficial comparison of these two areas would reveal that usually it is private sector that is more efficient and it more accurately responds to the needs of individual clients. However, if we look not only at the satisfaction of individuals but also at that of society, this comparison becomes more complicated as the term “efficiency” gets vague.

The article deals with the peculiarities of public organisations management. The paper is divided into three parts. The first part examines the differences between business and public organisations. The second part analyzes efficiency and its measurement. The third part examines the international applicability of new public management.

Research object – management of public organisations.

Research aim – to disclose the distinctions of public organisations management, influenced by the differences between public and business organisations.

Research methods – the analysis of scientific literature, logical analysis, analysis of statistical data, conclusion formulating.

Public and Business Organisations: the Main Differences

While the attainment and the number of goals differ significantly in the amount of discretion public organisations and private companies posses, it is important to note that public organisations and their officers cannot choose their goals themselves as their private counterparts do. If private firms have one chief obligation to operate according to the laws, public organisations are much more tied by various regulations and subject to the observance by special bodies. This leads Wilson (1989) to say that government management tends to be driven by the constraints on the organization, not its tasks. Organisations are more than private enterprises constrained to formulate necessary policies and have fewer resources to implement them. Furthermore, these constraints originate not in the bureaucracy but in the democratic political system.

Stewart (1992), Sakalas and Vienazindiene (2004) present the main differences between business and public organisations (see table 1).

Public organisations only have the amount of discretion that is passed to them by the external organizations while private companies set their objectives themselves. In democratic political systems, this means that public organisations are the subject to the control of democratically elected politicians. This also means that while we may not demand equality from private firms as wealth is not distributed equally, we may demand that public services should treat everyone equally as every citizen has one vote.
Differences between business and public organisations

<table>
<thead>
<tr>
<th>Business organisations</th>
<th>Public organisations</th>
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<tbody>
<tr>
<td><strong>Goals</strong></td>
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<tr>
<td>Clearly defined goals</td>
<td>Uncertain and complex goals</td>
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<tr>
<td>Seeking to increase market part</td>
<td>Following collective values</td>
</tr>
<tr>
<td>Striving for profit</td>
<td>Striving to serve not only for clients, but for citizens too</td>
</tr>
<tr>
<td></td>
<td>Motivated not by market changes, but by accessibility of the recourses</td>
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<tr>
<td><strong>Conditions</strong></td>
<td></td>
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<tr>
<td>Sharp competition</td>
<td>Many concerned persons (heads, politicians, citizens, consumers)</td>
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<tr>
<td>Market conditions</td>
<td>The activity is restricted by politics and laws</td>
</tr>
<tr>
<td>Not impact by political and law restricts</td>
<td>Public accountability</td>
</tr>
<tr>
<td>Report to shareholders</td>
<td>Short-term politics</td>
</tr>
<tr>
<td>Using secrecy as business confidentiality</td>
<td>Accumulation of funds by taxation</td>
</tr>
<tr>
<td>Recourses are obtained form business profit and loans</td>
<td>Complex and considerable evaluation of the activity</td>
</tr>
<tr>
<td>May enlarge the capital</td>
<td>Complex of politics’ implementation</td>
</tr>
<tr>
<td>May evaluate the effectiveness of the activity by aspect of products</td>
<td></td>
</tr>
<tr>
<td><strong>Tasks</strong></td>
<td></td>
</tr>
<tr>
<td>Managers have freedom to manage and take risk</td>
<td>Striving for collective goals</td>
</tr>
<tr>
<td>Flexible decisions</td>
<td>The activity is watched by society</td>
</tr>
<tr>
<td>Tasks setting on the base of the goals and responsibility</td>
<td>Balancing between the different interests</td>
</tr>
<tr>
<td></td>
<td>It is difficult to evaluate the results</td>
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<td></td>
<td>Personnel is not involved in the policy formulation</td>
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Most widely discussed examples of the constraints on public bureaucracies are constraints on financing and personnel management. Private companies can raise capital in many ways but public organisations usually have only one source of income — the state budget. Any attempt to remunerate public organisations according to any indicators of their efficiency would raise debates if such course of action were permissible. Even if public organisations would succeed in convincing the public that it is nothing wrong to profit on public service, outcomes of some public organisations still will not be easily measurable as some of them are organizations serving unwilling customers or hold monopoly of service. And even if the outcomes of the organization will be clearly measurable, it will be difficult to evaluate the merit of each bureaucrat — the ease of evaluation would decrease when going to upper levels of management. Nevertheless, as Peters (1995) claims, during the last two decades merit pay systems were widely elaborated.

Private firms can allocate financial resources in the most efficient way while the allocation of resources in public organisations is determined by the rules taking into account some of the contextual goals. While private firm can retain earnings and use them to pay bonuses or to invest into the development of its facilities, public organisation must return all unused funds to the state budget. Moreover, public organisations are not encouraged to save their funds as they may be accused of under financing their programs. From Lithuanian point of view, however, situation when a public organisation has any unused funds seems extraordinary as most organisations receive only a fraction of funds that were put down during the process of budget adoption. (This process itself may be an important factor as it shows that public bureaucracies, differently from private ones, may be constrained not only by laws and regulations but also by personal attitudes of the politicians who are adopting the budget.)

A private company has only a few limits to set the salary of its workers while public organisation’s discretion is limited by the clear rules set by legislative or executive bodies of the state. Therefore the situation when salaries in public organisations are higher (or lower) than in private ones is not surprising, especially when it is considered that it is not always possible to evaluate the outcome of public organisation therefore we lack effective means to determine the actual costs of labour (nevertheless, in some countries public service wages are determined according to private sector ones). Not only salaries of the private executives are more clearly defined — employees in private firm, as it was mentioned, have more possibilities to benefit from good market performance of their company.

Public organisation’s recruitment pattern is also subject to strict rules. In some countries, all bureaucrats are even recruited by a single body while private firms retain considerable freedom of hiring and firing their workers. The number of workers in private firms depends upon production requirements while public organisations have their number of bureaucrats determined by state regulation. Usually the number of bureaucrats doing the same kind of work in public organisation is larger than in private one as public bureaucracy must ensure not only the attainment of its major goal but also of contextual goals and follow strict rules of operation that should be overseen by greater number of persons.

Data on the activity of the population and average monthly gross earnings in Lithuania are presented on tables 2 and 3 (Statistical Yearbook of Lithuania 2004).

On the other hand, because of the rules, public bureaucrats sometimes enjoy lesser responsibility than private managers. As it was mentioned, constraints matter more than goals. Public officer is usually protected from firing even if the organisation does not perform well but he may be dismissed for not complying with the single regulation. Therefore it is compliance with the rules and not initiative that is encouraged. Conversely, private companies, especially at the higher levels of management, encourage private initiative and remunerate it accordingly.
Not all the differences between public and private organisations can be explained in terms of the company and its position. Some differences between the two types of organisations originate in the incentives of their employees. One of the most important, though not the only, incentive of public officer as well as private manager is payment for his or her job. Although it is difficult to compare all private and public sector jobs, sometimes public bureaucrats are better paid than private managers. Peters (1995) expands this argument pointing out that unskilled or semi-skilled workers in public organisations usually receive more than they would in private ones. However, in most of the developed countries, bureaucrats with higher responsibilities are paid less than their private counterparts. Therefore the incentives to take greater responsibility may be stronger in private than in public sector management.

### Table 2

<table>
<thead>
<tr>
<th>Activity of the population</th>
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<tr>
<td></td>
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<tr>
<td><strong>Thousand</strong></td>
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<tr>
<td>Total population as of January 1</td>
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<tr>
<td>Labour force</td>
</tr>
<tr>
<td>Employed</td>
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<tr>
<td>Public sector</td>
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<tr>
<td>Private sector</td>
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### Table 3

<table>
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<tr>
<th>Average monthly gross earnings (by litas)</th>
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<tr>
<td></td>
</tr>
<tr>
<td><strong>Thousand</strong></td>
</tr>
<tr>
<td>Whole economy</td>
</tr>
<tr>
<td>Public sector</td>
</tr>
<tr>
<td>Private sector</td>
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</table>

Material incentives are not the only ones, especially for those occupying higher echelon positions — as Wilson (1989) claims, if the importance of material incentives is decreased by political decisions, relative importance of other would increase. Among such incentives he mentions struggle for successful appearance of the organisation, not necessarily for its success, which is essential for private businesses. Other incentives for public officers include purposive and solitary ones. While these incentives are observed not only in public bureaucracy but also in private sector, they are much more relevant in the former than in the latter. Public service usually provides bureaucrat with greater influence on the implementation (and to some extent on the formation) of policy than the same position in private firm. Also, especially in the developed countries, public officers enjoy considerable prestige.

### The Measurement of efficiency

Efficiency is one of the essential differences between public and private organisations. While efficiency in the case of private firm can usually be measured by comparing the amount of resources used for production and the amount of outcome produced (the more is produced with the same amount of resources, the more efficient is the company), it is not the same with public organisations.

Wilson (1989) notes that for public organisations, efficiency means not only one output considered. While there may be one major goal according to which we can measure the performance of public organisation there always are some contextual goals that public bureaucracy must try to attain. Even if we considered only major goals, we would find that often they are difficult to measure as some public organisations exist to supply services that are immeasurable in economic terms (hence they are not supplied by the market). Outcome of the attainment of contextual goals such as equality of treatment and adequate representation, accountability (in this essay, the issue of the control of bureaucracy is not treated at full length, rather, the intention that bureaucracy should be subject to public control is considered as one of contextual goals), responsibility, integration of the minorities, hiring on the basis of merit, reputation of integrity, confidence of people is even less measurable. Furthermore, there is little agreement on the relative importance of each contextual goal and some of them are even incompatible, for example equal treatment and treatment according to the merits, therefore the consideration of the trade-offs is inevitable.

Public organisation by its definition must serve these “public” goals even at the cost of decreasing narrowly defined efficiency. The attainment of these goals decreases efficiency in that it produces additional set of rules and standard operating procedures which public organisation must follow to reduce costs, establish hierarchy, treat equals equally, etc.

Market firms show greater capacity to react to external challenges (bureaucracies also can react promptly but usually when private, not public, interests are at stake). Private organisations have strong incentives to increase the efficiency of their management as they face market competition where immobility often means bankruptcy. To survive, private firms must constantly improve their services or products while public organisations hold monopoly position, which together with long procedures of approving any major improvement in their services discourages any new initiative. Public organisations do not struggle in the sense that private companies do, and they also do not go bankrupt.

Generally, it is argued that the efficiency (in its narrow definition) of private companies is greater than of public ones because of three main reasons:

1. Lower labour costs
2. More effective management
3. Greater competition.

However, precise measurement of public organisations’ performance is not always available as they supply commonly consumed products or are monopolists in their own sphere thus giving no idea of basic point for measurement.

### The international applicability of new public management

Fundamental aim of the new public management (NPM) reform program is to transform the organisa-
tional identity of public organisations into a business-like identity. NPM has been around for well over a decade and its key features are well known. However, the term persists, as it is useful to describe the particular features of this developing management model. Moreover, although NPM is well established in the countries such as the UK and The Netherlands, it can still be described as “new” with respect to its introduction into some countries. Indeed the adoption of NPM by increasing numbers of countries worldwide has been described as “one of the most striking international trends in public administration” (Hood, 1991, p.3).

Osborne and Gaebler (1992) see NPM as part of what they term “entrepreneurial government”. Their version of NPM is viewed as a new global paradigm emerging in contemporary public administration. Some commentators go even further and argue that NPM is a world-wide phenomenon (Lam, 1996), moving swiftly from one country to another, manifesting a kind of global demonstration effect (Nunberg, 1992) and as an “irresistible force” rapidly spreading across Europe (Ridley, 1996).

Aucoin (1990) points to the “internationalisation of public management” and argues that in almost every government with developed political systems and highly institutionalised administrations there is a new emphasis on the organisational designs for public management. The OECD, which is committed to a view of international convergence on a “common reform agenda”, aims to foster NPM in all member countries (OECD, 1995). Implicit in such views is the belief that NPM is a public administration management model that is universally applicable regardless of social, cultural and political nature of the intended host country.

Contrary to the view that the new public management movement is a “new global paradigm” are some that argues that NPM represents only a short-term managerial fad (Abrahamson, 1991).

In contrast with the arguments of Osborne and Gaebler (1992) that there exists a single NPM model, Hood (1995) rejects this view and argues instead that there is actually a range of alternative future patterns of NPM that will adjust to the developing organisation of the public services. Ferlie et al. (1996) also see Osborne and Gaebler’s view as simplistic and over deterministic, as for them the public management movement has had a highly variable international impact. They also identified variants that have emerged in different countries. The nature of the variation, they argue, seem to be dependent upon the basis of local history, culture and political and managerial leadership both of the state and of the public organisation concerned.

The new public management model, which underpins the pursuit of the “3 e’s” – economy, efficiency, and effectiveness – may offer the solution to public administration problems (Sozen and Shaw, 2002).

Norbert and Adrian (2004) present IOP management concept of public sector, which develops public sector modernisation in three directions: innovations, organisations and personnel (see figure).

Evidence from international comparisons has demonstrated substantial differences in the pace, nature and extent of NPM-type reforms. There is no simple convergence on one new public management model, but rather a range of options is available. While explaining differences in public sector reforms in European countries, Ridley (1996) places emphasis upon cultural and political factors – i.e. a country’s system of government, its constitutional and legislative process.

![Figure. IOP management concept of public sector](image-url)
Conclusions

1. Public organisations cannot choose their goals themselves as their private counterparts do. If private firms have one chief obligation to operate according to the laws, public organisations are much more tied by various regulations.

2. Public organisation cannot choose its own goals; its freedom of recruitment, remuneration, fund raising and resource allocation and is much more constrained than private firm.

3. Attainment of these contextual goals produces a set of additional regulations, which slow down the work and might reduce the responsibility and block the initiative.

4. Private company has only a few limits to set the salary of its workers while public organisation’s discretion is limited by the clear rules set by legislative or executive bodies of the state.

5. Analysis of the activity and average monthly gross earnings of Lithuania’s population showed that about 2 times less employees are employed in public sector as in private sector. But salaries in public organisations are higher than in private ones.

6. Efficiency is one of the essential differences between public and private organisations. While efficiency in the case of private firm can usually be measured by comparing the amount of resources used for production and the amount of outcome produced, it is not the same with public organisations. Efficiency in its narrow definition of private companies is greater than of public ones because of three main reasons: lower labour costs, more effective management, greater competition.

7. Fundamental aim of NPM reform program is to transform the organisational identity of public organisations into a business-like identity.

8. NPM incorporates the importation of private sector management systems and techniques into the public services. Injection of market forces, commercial criteria and competition has been central to NPM-style reforms.


References


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Viešųjų organizacijų valdymas: specifika, efektyvumas, tarptautinė patirtis

Santrauka

Tyrimo objektas – viešojo sektoriaus organizacijų valdymas.

Tyrimo tikslas – atskleisti viešojo sektoriaus organizacijų valdymo specifiku, veikiančią viešųjų ir verslo organizacijų skirtingumą.

Tyrimo metodai – moksliškos literatūros analizė, statistinių duomenų analizė, ligiškai išvadų formulavimas.


Veiklos efektyvumas yra vienas pagrindinių viešojo sektoriaus organizacijų vertinius rodiklius, gali
e

paprastai būti pritaikytas viešojo administravimo sistemai ir pritaikyti naująjį viešąją vadybą, kuo
tiečiui įsitaisyti ir įsitainyti siejamas su tikslą.


2. Viešojo administravimo organizacijų tikslai paprastai būna daugiausiai verslo organizacijų tikslų, nes jų sąlygos yra vienodos.

3. Viešojo administravimo organizacijai būna daugiau kaip verslo organizacijai, nes ji turėtų laisvai pasirinkti savo finansavimo šaltinius, o verslo organizacijai jiems reikalinga.