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# Organizational Publicness And Its Implications For Strategic Management

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**ABSTRACT**

*This article addresses differences between the public sector, the third sector (private, nonprofit), and the private sectors and how these differences influence the content and process of strategic management. These differences make approaches to strategic management developed for private organizations somewhat incomplete and potentially misleading when applied in public settings. Practices that can be useful for organizations with significant amounts of publicness are offered, providing a basis for prescriptive and descriptive research into strategic management.*

The significance of public-private distinctions in the development of management theory has been recognized for some time. The failure to account for these differences creates inaccurate generalizations and loses sight of important distinctions, according to Perry and Rainey (1988), Blumenthal (1983), Murray (1983), Rainey et al. (1976), Dahl and Lindblom (1953), and others. These distinctions seem particularly important to strategic management. Nevertheless, it is common practice to export to strategic management those private sector approaches that assume clear goals; profit or economic purposes; unlimited authority to act; secret development; limited responsibility for actions; and oversight through market mechanisms that signal financial results. In public organizations--or, more accurately, organizations with significant amounts of publicness--many of these assumptions are not valid. To cope with characteristics that stem from publicness (Bozeman 1984; 1987), new approaches are needed that interpret strategic management ideas and go beyond those ideas to deal with issues posed by publicness.

This article lays out a framework that identifies the features of publicness and shows how these features relate to strategic management. The framework offers a theory of publicness applied to strategic management that specifies

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factors for arraying organizations along a continuum of publicness and linking the degree of publicness to strategic management. The theory can be applied prescriptively, offering guidelines to build strategic management procedures for organizations with significant degrees of publicness, or descriptively, suggesting exploratory variables that qualify or predict the likelihood of a successful outcome in strategy making.

## PUBLICNESS AND STRATEGIC MANAGEMENT

According to Bozeman (1987), all organizations are public. "Publicness" is the key to understanding an organization. Bozeman's notion is useful because it draws attention to the degree to which public authority affects how organizations act. Because all organizations are influenced to one degree or another by public authority, all organizations can be seen as public. The publicness notion leads to considerable blurring between sectors. Public organizations are no longer synonymous with governmental agencies but include for-profit service organizations as well as the third sector, which is made up of private, nonprofit organizations (Nutt and Backoff 1987). Calling all organizations public is perhaps a bit extreme, but it does illustrate the need to consider the public aspects of organizational life. We believe that the constraints and empowerments that stem from public authority are crucial considerations often overlooked in strategic management.

"Public" and "private" are taken from the Latin: The word "public" means "of the people," as contrasted with "private," which means "set apart." A variety of classifications have been used to distinguish between these meanings as they apply to public and private organizations. Perry and Rainey (1988) identify differences in environments, constraints, incentives, and cultures. Their review found that the unique needs of public sector organizations limit the portability of many ideas derived for the private sector, particularly approaches that deal with mission and strategic direction. Allison (1984), Neustadt (1979), and others have identified factors that capture public sector distinctiveness, but they all seem to draw on the ideas suggested by Rainey et al. (1976) and updated by Rainey (1989). This classification uses environmental, transactional, and process distinctions that elaborate and highlight public-private differences. We have extended this list to include factors with particular significance for strategic management. Also, third-sector organizations have been added to identify an organizational type with an intermediate level of publicness (see Exhibit 1). Third-sector organizations typically provide services, while public organizations engage in information processing and contracting for service provision.



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Exhibit 1
Factors That Capture Public-Private Differences

| FACTORS | SECTOR | | |
|---|---|---|---|
| | **Public** | **Third Sector** | **Private** |
| **ENVIRONMENTAL** | | | |
| **Market** | Oversight bodies compose market | Market made up of both oversight and buying behavior of clients | People's buying behavior defines market |
| | Collaboration among organizations offering a given service | Implicit or negotiated franchises to provide services in a given market area | Competition among organizations offering a given service |
| | Financing by budget allocations (free services) | Financing by a combination of budget allocations and service charges or taxing authority | Financing by fees and charges |
| | Data describing market often unavailable | Market data captured by cooperatives and shared | Market data typically available |
| | Market signals weak | Market signals mixed; some clear, some not | Market signals generally clear |
| **Constraints** | Mandates and obligations limit autonomy and flexibility | Contractors limit autonomy and flexibility (e.g., physicians in a hospital, | Autonomy and flexibility limited only by law and internal consensus users of a performing arts center) |
| **Political Influence** | Buffers needed to deal with influence attempts and help with negotiations | Buffers needed to deal with contractors | Political influence handled as exceptions without special arrangements |
| | Political influence stems from authority network and from users | Political influence stems from authority network and contractors | Political influence is indirect |
| **TRANSACTIONAL** | | | |
| **Coerciveness** | People must fund and consume the organization's service | Funding and use tied to contracts and arrangements that stabilize use and financing | Consumption voluntary and payment based on use |
| **Scope of Impact** | Broad sets of concerns that have considerable societal impact | Agreed or negotiated mandates can limit scope of societal concerns without legislative intervention | Narrow concerns with little societal impact |
| **Scrutiny** | Cannot keep private the development of ideas and developmental processes | Ideas and developmental activities periodically reviewed, as part of accreditation, etc. | Can keep private their ideas and developmental activities |
| **Ownership** | Citizens often act as owners and impose their expectations about organization's activities and the conduct of these activities | Ownership vested in users (e.g., physician in hospital) who promote their vested interests | Ownership vested in stockholders whose interests are interpreted using financial indicators |
| | Ubiquitous stakeholders | Many stakeholders | Few stakeholders beyond stockholders |



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Exhibit 1 (Continued)
Factors That Capture Public-Private Differences

| FACTORS | SECTOR | | |
|---|---|---|---|
| | Public | Third Sector | Private |
| **ORGANIZATIONAL PROCESS** | | | |
| Goals | Goals and thus aims are shifting, complex, conflicting, and difficult to specify | Goals are multiple and difficult to prioritize making aims contentious | Goals clear and agreed upon |
| | Equity dominant concern | Mixed concerns about equity and efficiency | Efficiency dominant concern |
| **Authority Limits** | Implementation contingent upon stakeholders beyond the authority leader's control | Implementation depends on securing the agreement of key contractors (e.g., physicians in hospital) | Implementation vested in authority figures who have the power to act |
| | Agency management within a governmental umbrella | Agency management within an authority structure | Agency management largely independent of outside influences |
| | Limitations posed by role of public action | Limitations posed by traditional roles | No limits |
| Performance Expectations | Vague and in constant flux, changing with elections and political appointments | Action taking has many interpretations until a consensus emerges | Clear and fixed for long time periods, creating urgency |
| **Incentives** | Job security, power, recognition, roles and tasks | Professionalization norms creates expectations | Financial |



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## ENVIRONMENTAL FACTORS

Many factors external to an organization contribute to its publicness. By tradition, these factors are termed "environmental." Those identified by Rainey et al. (1976) include markets, constraints, and political influence (Exhibit 1).

### Markets

Most public organizations lack economic markets to provide them with resources in the form of revenues. In private organizations, the buying behavior of people is the primary source of information, suggesting which organizational actions (e.g., products) are or are not effective. Public organizations are dependent on oversight bodies for resources or on reimbursement for services based on preset formulas. Appropriations are often divorced from market mechanisms, allowing public organizations to avoid efficiency and effectiveness considerations until raised by an oversight body (Drucker 1973). Budget allocations from these oversight bodies often follow historical precedent, creating incentives to spend at previous rates whether or not such spending has produced useful outcomes (Dahl and Lindblom 1953; Ritti and Funkhouser 1987).

In third-sector organizations, reimbursement often stems from allowable charges that are set by oversight agencies (Nutt 1980). For instance, governmental agencies set rates for hospital and nursing home charges; this dictates revenue possibilities and imposes various limits. Third-sector organizations must deal with several oversight mechanisms to alter revenue, such as hospitals negotiating rates with Blue Cross/Blue Shield and other insurers and coping with Medicaid formulas. Third-sector organizations resemble public organizations in their approach to revenue generation.

Publicness is related to the dependence on nonmarket sources for operating funds. Total reliance on budget appropriations with no opportunity to charge for service, such as in a fire department, defines the high end of the continuum. Oversight bodies make up the market for these organizations. Publicness declines if charges can be made, such as when state natural resource departments supplement their budgets with license and user fees or public universities raise two-thirds of their revenues from fees (tuition) or from grants obtained by faculty. Budgets derived from revenues based on services with charges that cover part of the costs also point to an intermediate level of publicness. Oversight bodies in such organizations have a role in authorizing services that avoid



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price controls or in approving the magnitude of fees to be charged. Organizations that must work through an oversight body to alter their resource bases have concerns that differ from organizations that sell to a market.

The extent of competition, financing arrangements, data availability, and the strength of market signals also can be used to suggest organizations with considerable publicness. Competition for customers can be cumbersome or even prohibited for public and third-sector organizations. Public sector organizations often are expected to collaborate with other organizations offering similar services and not compete for customers. To do so would be seen as creating a duplication of services, universally regarded as undesirable in the public sector. Third-sector organizations, such as hospitals, often have implicit franchises to provide services to a given catchment area. Competition arises only when negotiations among hospitals break down. In organizations with significant degrees of publicness, strategy that enhances cooperation and collaboration should be sought (Exhibit 2).

In private organizations, financing is fee/price-based. Public organizations either offer free services, obtaining its financing by budget allocations and/or taxation, or charge nominal fees that cover a portion of the service delivery costs. For instance, public libraries provide free service but can seek budget enhancements by asking voters to approve a property tax millage increase earmarked for libraries. Some agencies supplement their budgets with license and user fees. Any reliance on public subsidies creates a need to maintain budget support and include its maintenance in any strategy (Exhibit 2).

In public organizations, data describing service markets are often missing or unobtainable. Many public organizations are prohibited from diverting funds from service delivery to collect data describing the intensity, distribution, and type of service offered. Even for situations in which such information is not prohibited, professionals are often reluctant to bleed resources from direct service provisions to collect such information. Third-sector organizations also tend to have primitive information about their markets, although the reasons are less clear. These data deficiencies are compounded by the weak or ambiguous signals in the environments of public and third-sector organizations. As a result, strategy must be developed with little or no supporting data (Exhibit 2). This situation is markedly different from that of private sector organizations, which can have considerable market data (e.g., sales by region) and strong market signals about success or failure (e.g., sales following the introduction of new products).



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Exhibit 2
Strategic Management Needs Posed By Public And Third-Sector Organizations

| FACTOR | CONSIDERATION | STRATEGIC MANAGEMENT NEEDS |
|---|---|---|
| **ENVIRONMENTAL** | | |
| Market | Market determined by authority networks | Must identify the beliefs and demands of people in authority networks to premise strategic development and guide implementation |
| | Collaboration and cooperation expected | Find substitute for competitive devices |
| | Financing by user fees limited or ruled out | Maintain budget or taxation arrangements |
| | Market characteristics unclear | Identify scope and nature of service use with little data |
| Constraints | Mandates and obligations often limit autonomy and flexibility | Mandates and obligations must be understood and put in proper historical and political context |
| Political Influence | Influence attempts are apt to occur | Bargaining and negotiating tactics should be incorporated at key decision points |
| | Political influence from users (contractors) and authority network | Balance contractor or user concerns with those of people in authority network |
| **TRANSACTIONS** | | |
| Coerciveness | Opportunities to insure service consumption and payment | Consider coercive opportunities as part of formulation and implementation of strategic change |
| Scope of Impact | Narrow conception of role misses these opportunities to act supportable by a public charter | Ways to discover important externalities that guide aspects of strategy development |
| Scrutiny | Idea development can be subject to public review | Ways to open up process for outside participation and review |
| Ownership | Everyone is a stakeholder, or may act like one | Learn about public desires and expectations about conduct of service delivery |
| | Many stakeholders | Determine stakeholder views in efficient and effective manner |
| **ORGANIZATIONAL PROCESS** | | |
| Goals | Often hard to specify goals. Equity concerns as important as efficiency | Find a substitute for goals that overcomes vagueness and potential for conflict |
| Authority Limits | Resources needed to act beyond control of strategic manager | Offer ways to identify and manage essential resources |
| | Limits posed on actions of government | Learn how to deal with constrained action space |
| | Involve authority structure in deliberations | Ways to represent disinterested oversight bodies |
| Performance Expectations | Lethargy and inertia inherent in political time frames or peer assessments | Process should create urgency and need to take action |
| Incentives | Incentives hard to apply and based on personal achievement and recognition | Create excitement about strategic action that rewards through participation in action taking |



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Exhibit 2 identifies strategic management needs that arise from publicness. Strategic managers in public settings must identify the beliefs and demands of key stakeholders. Strategic managers in public organizations must carefully collaborate with their oversight body as they fashion a strategy. In addition, financing arrangements, competitiveness, market signals, and data depicting markets are quite different for public and third-sector organizations. Each calls for special considerations not required in private sector strategy.

**Constraints**

Legal mandates, obligations to a charter, or tradition often pose significant constraints for public organizations that limit their autonomy and flexibility (Mainzer 1973; Thompson 1962; Woll 1963). There is less choice in adding or deleting services and in carrying out other actions thought to be desirable. Constraints that limit spheres of action are important considerations for strategic managers in public organizations.

Fire departments and law enforcement agencies are expected to service a particular area, precluding marketing to find new customers. In addition to fixed customers, such agencies have a stipulated set of services that they are expected to provide. Third-sector organizations, such as charities, often find missions dictated by tradition, which provides similar constraints. For instance, a Shriners' children's hospital is expected to provide designated services, such as burn care, to a particular group: children. Deviation from this target group and service profile would be resisted strenuously because of traditional commitments.

Third-sector organizations also have to cope with constraints that limit their flexibility and autonomy. For example, physicians who make up a hospital's medical staff must be consulted about major policy changes and often push self-interest, even at the expense of the hospital.

Court rulings, the demands of contractors, enabling legislation, and newly elected administrations all produce directives that public organizations must accept. As the degree of publicness increases, the force of these directives also increases. This creates significant constraints on action that must be considered in strategic management. Mandates and obligations must be understood and put into a historical context that describes the organization's traditions and direction before specific actions are contemplated (Exhibit 2).



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**Political Influence**

The environment of a public organization is littered with political considerations. The views of opinion leaders, outright manipulation by legislators and interest groups, and formal opposition to the agency's right to act all swamp the economic issues crucial for private organizations (Levine et al. 1975). Disagreements and logrolling among key people can occur at any time and, within limits, are permissible ingredients in any effort to develop strategy. Bargaining and negotiation must be used to find domains of action. How things are viewed or understood by stakeholders holds more salience than the validity of claims. The meaning of a claim must be derived from opinions as well as facts. If economic reasoning, such as efficiency, is applied it must be preceded by a politically derived decision to deal with efficiency. In third-sector organizations, buffers are devised to deal with contractors. For example, symphony orchestras devise special organizational arrangements to manage carefully their key clients: big donors and musicians.

The prospect of attempts to influence by key people coerces public organizations to build buffers in the form of coalitions, advisory groups, and interagency coordinating groups that can fend off or limit influence attempts or help with negotiations. Private organizations have fewer needs for such buffers.

As strategy is being formulated, strategic managers in public organizations must anticipate and build-in negotiating and bargaining opportunities (see Exhibit 2). This openness to influence helps to fend off criticism and paves the way for implementation to take place more smoothly than had these arrangements been ignored.

**Strategy and Public Environments**

The beliefs of key people in authority networks and the mandates and obligations imposed by these networks call for strategic managers to think carefullly through limits on action and demands for collaboration. Strategic managers must identify and appraise carefully the historical contexts of their organizations in order to develop an appreciation for these concerns (Nutt and Backoff 1992). Explicating context allows key people to develop and build on a shared interpretation of an organization's history. Action is more apt to be successful when it takes into account the constraints of political influence and authority networks.



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Assessing the environment draws out issues (Ansoff 1984). These issues then can be framed as tensions in order to bring out the strong claims and counterclaims characterizing, on the one hand, the beliefs of people who control public and third-sector organizations and, on the other, the crosscurrents produced by contradictory demands from clients, politicians, professionals, and other stakeholders. Framing issues as tensions shows how the issues are pulling and pushing the organization in several ways at the same time. Managing issues as tensions makes it harder for powerful individuals in the organization's authority network to thwart strategic management efforts (Nutt and Backoff 1993).

The beliefs and demands of key people in authority networks must be identified to uncover premises that are crucial for strategy development. Such premises will be influenced by mandates and obligations, expectations for collaboration with others competing for the same pot of limited funds, organizational financing arrangements, and sources of political influence. Each must be appreciated as the organization devises new ways to act.

Because public and third-sector organizations experience rapid turnover of people and environmental turbulence, it is essential periodically to appraise events, trends, directions, and issues that create demands on these organizations. This makes it easier to spot the political factors that can render any strategy ineffective. An appreciation of market parameters flows from recognizing these constraints. This can help organizations target services in new ways, change service profiles, identify services not valued by users, or call for surrendering some services to private sector initiatives.

## TRANSACTIONAL FACTORS

Public organizations develop numerous, often complex, relationships with key entities in their environment to deal with the environmental factors. These relationships are mediated by the organization's coerciveness, scope of impact, extent of public scrutiny, and public ownership factors.

### Coerciveness

The mandates of public organizations often give them coercive power (Lowi 1969; Stahl 1971). Individuals cannot earmark their tax payments to avoid financing public organizations, and they can be made to use the services that these organizations provide. Parents are expected to support public schools and send their children to these same schools unless



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they can show school attendance elsewhere. Coercive power declines when service use is optional and funded in part by governmental agencies.

Strategic management in public organizations can use coerciveness as a key element of strategy. Private organizations are more dependent on marketing or selling to potential customers. As publicness increases, marketing declines in importance and maintaining favorable coercive arrangements increases in importance. Strategic managers should be aware of coercive opportunities in their mandates as they fashion strategy and devise implementation plans (Exhibit 2).

**Scope of Impact**

Public organizations have a broader scope of impact and deal with a greater variety of concerns than do private organizations (Appleby 1945; Mainzer 1973). For instance, the public school system is an important agent in dealing with poverty, racism, child abuse, juvenile crime, and many other social problems well beyond its educational mandate. Local businesses have no legitimate authority to deal proactively with any of these concerns. As publicness increases, so does the need to be aware of externalities that complement the mission of the organization.

Third-sector organizations have a more limited view of societal concerns than do public organizations. Agreed or negotiated mandates in hospitals, for example, call for reporting possible child abuse but not incidences of maternal mortality, unless reporting is mandated by state laws. The scope of impact is narrower, but still far broader than it is for private organizations.

The strategic leader in a public organization must take steps to become aware of opportunities for social action (Exhibit 2). The public organization, concerned with the survival of society and armed with coercive power, can and should take on tasks that other sectors cannot (Levine et al. 1975). A key example is the creation and distribution of services, such as education and preventive medicine, that marketplace arrangements cannot manage in an equitable manner. As a result, the scope of plausible strategic responses has fewer limits, and strategic managers should search for issues that embrace externalities before responses can be contemplated.



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**Public Scrutiny**

As publicness increases, so does the prospect of scrutiny (Millett 1966; Stahl 1971). Most public organizations do not have the luxury of keeping strategy development secret. Sunshine laws, highly visible budgeting processes, and mandated planning exercises often force these organizations to conduct business in the open, obliging them to plan in the presence of hostile interest groups or even the media.

Even when sunshine laws do not apply, mechanisms of accountability and oversight make all actions in public organizations, even contingency plans or hypothetical scenarios, subject to review and interpretation by outsiders. Blumenthal's (1983) "fish bowl management" aptly describes the way in which a public organization must function to devise strategy. Third-sector organizations have less scrutiny but most cannot be completely private with their plans. Regulatory bodies and accreditation agencies can demand to see strategic plans and leak the contents.

Strategy devised in the face of public scrutiny must be developed using procedures other than those in private, closed settings (Exhibit 2). More opportunity for participation is essential. Strategy making is both a political and a formative process. In private organizations, politics seldom goes beyond coping with resistance to change. In a public organization, politics involves managing many stakeholders, external to the organization, who control or influence needed sources of money and people whose support is essential.

**Ownership**

Ubiquitous ownership also distinguishes public from private organizations (Wamsley and Zald 1973). Everyone can have an ownership stake in public organizations. The public organization is expected to show integrity, fairness, responsiveness, honesty, and accountability to citizens (Caiden 1971). Private organizations have fewer implied obligations, and people place fewer demands on them. Publicness increases as the notion of communal ownership increases.

A form of ownership is vested in contractors for third-sector organizations. Like owners, professionals represent a key group of stakeholders who must be consulted before any significant change can be made.



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Strategy development in a ubiquitously owned entity is very different from that in an organization in which owners are stockholders or families. In public organizations, the strategic manager must appreciate public desires and expectations in the delivery of services. Cumbersome mechanisms are needed to deal with the logistics of consulting the citizen as stakeholder. Devices such as public meetings, task forces, and public announcements are used to determine expectations and refine understandings about what the organization should do and how the organization should act.

**Strategy and Transactional Consideration**

Strategic management in public and third-sector organizations creates a complex web of transactions (Bryson 1988). With inter- and intraorganizational coordination, agencies or work units stake out their claims for domains of action. The complications posed by this coordination often create considerable inertia. Agencies such as a state department of natural resources must consult internally (e.g., with its fish and wildlife divisions) and externally (e.g., with commerce and labor departments) before taking action, which makes strategic change difficult to initiate. For example, a secretary of a U.S. government department concedes that his decisions often failed to produce action (Bluementhal 1983). This stems from the need to cross both horizontal and vertical boundaries, which makes consultation both essential and cumbersome.

Third-sector organizations (e.g., hospitals and university facilities) face similar problems as they coordinate strategy formulation with professionals whose values and needs can conflict with those of the organization. Physicians in hospitals, lawyers in a city attorney's office, and the like must be consulted before action can be taken. As a result, important issues can be ignored unless the organization grapples with ubiquitous ownership and stakeholders.

To create strategy, the strategic manager should emulate the secretary of a successful U.S. government department. The successful secretary recognizes that action depends on a coalition of interest that pushes things along (Bluementhal 1983). To overcome inertia, one creates a coalition of interests to keep the strategic management process on track. The coalition identifies contextual features, carries out situational assessments, forms issue agendas, and identifies strategy. The discussions and interactions in the coalition are carried out to discover ideas and set the priorities needed to deal with context, situational issues, and strategy. This helps the coalition create a shared interpretation of both interests and possibilities.



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Understanding these transactions brings out both the facts and the beliefs of key parties that must be understood and managed before strategic action can be taken. Vesting action in a coalition (a strategic management group) creates momentum and commitment to overcome the inertia inherent in organizations with public features.

Strategic content is influenced also by sector differences. Firms can undertake proactive strategies that call for divestiture, horizontal and vertical integration, and acquisition (e.g., Porter 1985; Ansoff 1984). Strategies in public and third-sector organizations tend to be more reactive. Typically, a strategy must take shape as an incremental movement that balances opportunity with threat. For example, being too proactive can crystallize opposition, which may hamstring future efforts. Being too reactive can force the organization to concentrate on putting out fires. Opportunities in public organizations can arise also from the coercion to pay for and use a service found in enabling legislation (e.g., legislation mandating the fluoridation of water). Also, tacit authority to deal with broad societal concerns can produce opportunity. For example, child abuse programs are feasible in public schools even though the public school's mandate may not mention such programs. Managing the tension inherent in an issue is required to move an organization with significant publicness to a new posture that responds to opportunities in a feasible manner.

## ORGANIZATIONAL PROCESSES

The internal operations of an organization also provide clues that help to identify its publicness. Key factors that distinguish public from private organizations are goals, authority limits, performance expectations, and types of incentives.

### Goals

The most obvious and crucial difference between public and private organizations is captured by their respective goals (Baker 1969; Mainzer 1973; Weiss 1974). Public organizations usually have multiple goals that are both vague and conflicting. There is no "bottom line" that can be used as a proxy measure of success in public organizations. Instead the demands of interest groups, flux in missions, and manipulation by important stakeholders and third parties create a set of complex and confusing expectations that are frequently conflicting.



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Third-sector organizations also have a difficult time with goals. For instance, hospitals are judged using one set of standards by insurers and other standards by patients, medical staff, and boards of trustees (Nutt 1980). Charities have to deal with both fund raising and allocation, which are intrinsically intertwined. A charity's goals must involve getting money as well as seeing the need for it, using the potential recipients' needs as attention grabbers to raise money.

In public organization, equity in dealing with clients and providing services is more important than efficiency. As publicness increases, efficiency and its cost proxy become less useful and equity concerns increase in importance. More importantly, equity measures may distract the organization from confronting goal ambiguity. Ambiguous goals make it impossible to identify current and future directions, a crucial aspect of strategically managing an organization.

Most strategic management procedures call for clear goals. Goal specification creates substantial ambiguity for public organizations. The more public the organization, the greater the difficulty. Strategy development in ambiguous goal situations is particularily difficult. This ambiguity provides a sharp distinction between strategic management in public and in private organizations (Exhibit 2). The complex, pluralistic, and opportunistic political milieu in which strategy must be developed makes goals illusory (Levine et al. 1975). Another means that recognizes that targets have many attributes must be found to establish directions.

**Authority Limits**

Compared to private sector managers, public administrators have weaker power bases and less authority to alter or reshape the systems they must manage (Gawthrop 1971; Woll 1963). Autonomy and flexibility are generally lower in public organizations, making authority limits a key ingredient in defining publicness. For instance, a welfare administrator might know how to improve fund disbursement efficiency but, without petitioning a legislative body, have no way to initiate useful changes. Strategy development must take into account these limits to insure that stakeholders are managed to enhance implementation prospects.

Strategic management for public organizations must be carried out in a jurisdictional jungle (Levine et al. 1975). Interjurisdictional cooperation is essential but creating and maintaining the needed level of cooperation is costly, frustrating, and failure prone. Resolving claims in favor of one type



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of claimant eliminates many of these difficulties, but it creates unstable strategy. Apparent selectivity or favoritism can be used by opponents to assail the strategy, leading to its modification or withdrawal. It is better to confront these forces than allow them to percolate to the surface and cause continual changes in direction.

**Performance Expectations**

Goal ambiguity in public organizations makes performance expectations difficult to specify (Dahl and Lindblom 1953; Schultze 1970). Vague performance expectations have several consequences. First, success cannot be recognized easily. It is often difficult to identify and reward key contributors. Also, failure cannot be detected and corrected in a timely manner. Second, and perhaps more significantly, there is less urgency in public organizations. Periodic elections, political appointment, and the like install new leaders that interrupt the organization's plans and projects and create inertia. These "scheduled interruptions" lead to cautiousness, inflexibility, and low rates of innovation (Rainey et al. 1976).

Third-sector organizations are spared scheduled interruptions, but they do experience difficulty in making assessments stemming from goal ambiguity. For example, how do voluntary boards of trustees judge a symphony, an art gallery, or a hospital? Hospitals are expected to produce quality; however, performance based on quality is never measured, in part because the meaning of the term quality is both elusive and disputed. The orchestra and the art gallery have similar problems when their boards attempt to judge the quality of an exhibition or a performance. Change awaits consensus that quality can and should improve, which always involves collaboration by outside experts.

Strategic management in public organizations is undertaken to prompt action and to discover agendas of activities that fit within political time frames and respond to consensual demands for change based on peer review such as accreditation (Exhibit 2).

**Incentives**

Encouraging effective performance by using incentives is much more difficult in public than in private organizations (Roessner 1977; Schultze 1970). A key factor in defining publicness is the ease with which incentives that are likely to alter performance can be devised.



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*Organizational Publicness*

Oversight bodies seeking to improve performance often attempt to use incentives that encourage people to act in ways that produce superior performance. The more public the organization, the more difficult it is to devise workable incentives. Difficulties stem from the type of incentive that seems to be preferred in various sectors and the ease with which performance level, individual action, and incentive payments can be linked.

In private organizations, individual contributions to profit and related indices can be rewarded monetarily. Reward preferences, individual contributions to performance, and the measurement of performance can create significant barriers to using incentives in organizations that have significant degrees of publicness. Banfield (1977) found that public sector employees often prefer job security, important tasks and roles, power, and recognition over financial rewards.

These rewards can be difficult to dispense. Job security and power may be given only once. Important tasks do not necessarily arrive when needed to provide a reward. Furthermore, linking people's efforts to these rewards is often difficult. Who or what, for example, was instrumental in client turnaround in a children's services agency? Various counselors, therapy programs, public school officials, and client self-motivation all play a role, and the contribution of each is often hard to sort out. The private sector can use material incentives more effectively, tying measurable performance to financial rewards. Also, there is evidence that private sector employees attach more importance to financial incentives than do public sector employees (Lawler 1971).

Strategic management must take into account the lack of responsiveness to incentives in public organizations and use more creativity in developing incentives that match the organization culture and touch the needs of people in the organization (Exhibit 2). In general, incentives play a more indirect role in settings with publicness. Other means are needed to encourage productive behavior; this calls for creativity during strategy formulation to devise effective mechanisms that recognize the unique features of the setting. Participation in strategic change offers a way out of such dilemmas (Exhibit 2). Excitement can be created in professional staffs by providing ways for these professionals to participate in the strategic management process. Participation caters to the desire of public sector employees for important tasks and roles as well as an influence on what the organization does.



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**Strategy and Organizational Processes**

Goal ambiguity, limits in the acquisition of resources, low expectations, and the absence of incentives pose obstacles for the strategic manager. Several steps are required to deal with these obstacles. First, ideals can be used in place of goals. Goals should be avoided because they are ambiguous in public organizations and tend to remain so after clarification attempts (Nutt and Backoff 1992). Ideals provide a picture of the desired future state of the organization, giving concrete cues on which to build action. Ideals indicate best-case and worst-case situations that describe clients, programs, reputation, and competence. The worst-case provides a floor on which to build, and the best-case provides a target to plan toward. Ideals provide intentions that can be articulated in the concrete terms preferred by organizational leaders. They provide targets and offer ways to seek compromise among competing views that dictate what the organization is (or is not) about.

Second, to build joint agreements that allow strategic action, public and third-sector organizations may have to alter jurisdictions and garner resources. Both jurisdictions and mandates can set precedents requiring careful analysis before action is taken. Everyone is a potential stakeholder; this calls for careful assessments of a stakeholder's motives to block a strategy and his/her power to do so. Key people in the organization's authority network can be mobilized to pry resources away from other uses, to support new budget authorizations, or to authorize usage fees that can underwrite the costs needed to carry out a strategy. People in the authority network of a public or third-sector organization can draw on political influence that is seldom available to firms. Thus organizations with public features have opportunities to underwrite the costs of strategies and also have barriers to carrying them out, no matter how financially feasible the strategies might be. Strategic managers in firms tend to ignore external negotiations and often use authoritarian postures in their internal dealings. Carrying out stakeholder and resource assessments to form plans helps to cope with the needs to manage key people in authority networks and to uncover the resources needed to take strategic action.

Third, participation in a strategic change offers a way out of the dilemmas of missing incentives and low expectations. Enthusiasm can be created when professional staff members are provided with ways to participate in the strategic management process. Participation caters to the desire of public sector employees for important tasks and roles as well as an influ-



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ence over what the organization does. Private sector strategic management procedures make no allowance for such involvement.

## STRATEGIC MANAGEMENT FOR PUBLIC AND THIRD-SECTOR ORGANIZATIONS

Organizational leaders are vitally concerned with the content of the strategy as well as with the steps that will be taken to develop and refine ideas and then implement them. The approach we propose deals with the "dance of the what and the how" by moving between content and process in several waves, or stages of activity (Nutt 1992). Each move creates content and provides a way to take the next step. In the discussion that follows, we outline a strategic management processes and show how it can cope with the concerns and difficulties facing the strategic managers of public and third-sector organizations.

### Understand History

Key staff and board members must learn about the organization's origins and founding ideas. These educational efforts attempt to create shared interpretations of where the organization has been. This step is essential before people can decide where the organization should go in the future.

To create a shared understanding of the organization's history, a strategic management group (e.g., a board or planning group) uncovers trends, events, and directions. Directions indicate where the organization has been and where it will go without change. Trends and events capture important developments that have shaped directions and will influence them in the future. For example, a rape crisis center had to immerse its new board into the trends and events that shaped its emphasis on rape prevention. At the same time, new trends and events (e.g., child abuse) that suggest new directions can be considered. As these developments are discussed, the center can determine what it wants to preserve and what it could change.

This discussion sets the stage for developing ideals. Ideals represent the best situation for an organization, providing strategy development with a target. For instance, ideals for the crisis center could call for programs in the several areas that balance the interest of its factions. Stated in concrete terms, ideals create a vision of what an organization can become.



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**Explore The Situation**

An exploration of its history gives a strategic management group (e.g., board) an understanding of the organizations's past. From its ideals it gains an appreciation of an idealized future. The next step is to explore factors that obstruct or enhance the prospects of reaching this desired future state. The organization's strengths, weaknesses, opportunities, and threats (or SWOTs) are uncovered and explored to identify things that enable or limit strategic change. Organizations such as a workmen's compensation bureau, facing pressure to change because of slow and ineffective operations, would identify competencies (strengths) and possibilities (opportunities) that would be mobilized to deal with weaknesses (staff and systems) and blunt threats (political pressure to change).

**Uncover Issues**

Historical and situational assessments help an organization develop a shared view of core concerns that must be managed. Priority concerns shape an issue agenda. Issues capture tensions in the organization that are pulling and pushing it away from its ideals. For example, within a state board of regents for higher education, a key issue tension was between "job readiness and college preparation," which called for educational change (Nutt and Backoff 1993). We call this a "productivity-productivity" tension, moderated by transition (change). Organizations need to search for other values such as human relationships and preservation. Continuing with the regents' example, the learner's needs (human relations) may be in tension with educational change, and preservation (profit for firms and research productivity for universities) may be in tension with the learner's needs as well as college preparation and job readiness. Organizations that uncover values that identify issues in this way for their issue agenda are more apt to deal with chronic concerns and difficulties (Pascale 1990).

**Identify Strategy**

The issue agenda directs the search for strategic actions, beginning with the most important issue tension to be managed. Considering the SWOTs found to be crucial, a search is mounted to find ways to manage these issues tensions by building on strengths, overcoming weaknesses, exploiting opportunities, and blunting threats (Nutt and Backoff 1992). For instance, the regents' executive director could use such an approach to find ways to deal with the tension between job readiness and college preparation by asking how strengths (educational programs) and weaknesses (the applicability of



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training to the needs of the firms), opportunities (co-op programs that give credit for on-the-job training), and threats (firms that boycott graduates) offer useful ideas. Following these steps helps people organize their thoughts and stimulates their creativity.

### Assess Feasibility

The resources needed to carry out a strategy and the reactions of key people who are stakeholders provide indications of feasibility. Public and third-sector organizations can get resources from internal reallocations and from outside support. For instance, a county library was able to pass a county-wide levy to support its strategic plan. Mental health centers have been successful in replacing lost funds with levies. State departments of natural resources charge user fees and support up to two-thirds of their budget in this way. Strategic leaders must inventory both available funds and potential sources of support to underwrite implementation costs. Resources provide one test of a strategy's feasibility.

A second test stems from key stakeholders. Stakeholders must be inventoried and assessed much like resources are. Stakeholders are identified, their positions determined, and plans forged to capitalize on the supporters and to manage the antagonists (Nutt and Backoff 1987). The nature and number of stakeholders in each category determine whether implementation is apt to be successful (Freeman 1984).

### Implement

During implementation, plans are devised to deal with the concerns posed by the resource and stakeholder assessments. For instance, diverting funds from employer collections to underwrite change in a bureau of workmen's compensation, although seemingly desirable and supported by key stakeholders, can be prohibited by law. Implementation in this case would identify people who must authorize such action to work for a change in agency rules. Implementation can involve lobbying, negotiation, bargaining, education, coalition building, co-optation, selling, and promotion. Stakeholders thought to be amendable to one or more of these tactics are approached by the organizational leader to try to win them over.

## SUMMARY OF IMPLICATIONS

Many organizations have significant degrees of publicness that pose important considerations for the strategic manager attempting to regenerate and change one of these organiza-



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tions. This article offered a theory of publicness that can be used to do two kinds of research into strategic management.

First, the prescriptive development of strategic management must incorporate ways to deal with factors of publicness in Exhibit 1. The factors in Exhibit 2 provide a series of concerns that must be addressed in adapting private sector approaches or developing new approaches. To deal with these concerns, organizations were encouraged to activate a strategic management process that calls for gaining an understanding of history, exploring the situation confronting the organization, uncovering an issue agenda of tensions, identifying strategy, testing the strategy's feasibility, and implementing the strategy.

Second, the theory suggests explanatory variables and propositions that link each variable to consequences for strategic management. Descriptive studies can be undertaken to test these propositions that use the factors as explanatory or contextual variables to qualify or predict the outcomes of strategic management in organizations with significant degrees of publicness. These steps help to overcome the criticism by Perry and Rainey (1988) that many studies in the management arena fail to link public-private distinctions adequately to theory.

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