

**Strategic Management when Profit isn't the End:
Differences between Public Organizations**

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Abstract: Strategic management has a growing impact on public organizations due to the changes of the public sector. Still, there is a need for a better understanding whether/and under what condition different strategic management theories made for private companies can be applied in public organizations. The aim of this paper is to discuss the usefulness and the limitations of different strategic management theories in public sector organizations. The paper discusses two of the most influencing strategic management theories: Porter's strategic positioning and the Resource-Based View of strategy. Especially, there are reservations to strategic positioning because the traditional public organizations are restricted by their mandate regarding the market they compete in and the position they can take. Furthermore, market failure is in Porter's theory used to appropriate value (profit), while the traditional public organizations primary focus on value creation for the organization's stakeholders. RBV, on the other hand, focuses at efficiency and value creation, but still profit is a central concern. The question is whether profit-seeking is a fundamental assumption to RBV. The above reservations relate to the traditional type of public organization. However, the possibilities for application of strategic management theories in public organizations vary considerably depending on different types of public organizations. The paper offers a framework in the form of a typology in which it classifies the different types of public organizations in relation to three dimensions: autonomy, performance-based budget, and market-like condition from which it can discuss the relevance of different strategic management theories in different public organizations.

Introduction

Over the last couple of decades, the public sector in most of the western world has undergone a lot of changes due to different modernisation initiatives (Kettl 2005; Pollitt and Bouckhart 2004), many of them labelled New Public Management (NPM). NPM has been used in many different ways (Hood 2005), but a classic characteristic is that it introduces newer economic theory (e.g. transactions cost economics and agency theory) and management theory in public organizations (Hood 1991). Due to these changes towards more business-like agencies, it is not surprising that strategic management has a growing impact on public organizations and the relevant literature (Ferlie 2003). Still, the field of strategic management in public organizations is often very immature. One indication of this is that a lot of the literature is vague about its understanding of strategic management and also very eclectic when using different theoretical sources without considering their basic assumptions and thereby potential conflicts. This calls for more focused research on the use of strategic management in public organizations. This paper is not going to give a general overall definition of strategic management because it is a field with many different perspectives (Mintzberg et al. 1998) that focus on different aspects, and it is fruitful for the field not to be narrowed to one single aspect. On the other hand, we have to be very specific when analysing specific strategic management theories.

This paper therefore makes a theoretical investigation of the possibilities for applying different strategic management in public organizations¹ where public organizations are defined as organizations that are both public owned and public funded, based on Wamsley and Zald's (1973) classic distinctions. More specifically by analyzing the two probably most influential strategic management theories (Spanos & Lioukos 2001) in business: Porter's strategic positioning (Porter 1980, 1985, 1991, 1996), which focuses on choosing a clear strategy and positioning in the market to exploit market imperfections, and the Resource-Based View (RBV) of Strategy (Barney 1991, 1995, Barney and Peteraf 2003), which focuses on developing and exploiting the organization's resources. The reason for choosing these theories – apart from the fact that they are used in business – is that even though they are the most cited and also widely used in private companies, the literature about strategic management in public organizations does not pay much attention to them. More papers and books focus on other aspects of strategic management, e.g. on the strategic processes (Bryson 2004) or on Miles and Snow's classic typology (Miles et al. 1978) used in public

¹ The question of application of strategic management theory in public organizations is not new (Ring and Perry 1985, Bryson and Roering 1987, Ferlie 2003).

organizations (Meier, O'Toole, Boyne and Walker 2007), than on strategic positioning and RBV - though RBV has got more attention the last couple of years. This paper investigates whether it is a coincidence that Porter and RBV receive so little attention, or whether it is because their fundamental assumptions prevent them from being applied in public organizations. The paper compares the fundamental assumptions behind the two strategic management theories with the context of public organizations and offers some propositions about the use of the theories in public organizations. The aim is to discuss the possibilities for application of different strategic management theories in public organizations, where application is a question of whether these theories can be used analytically to describe the use of strategic management in public organizations. Naturally, this also has implications for managers' use of strategic management but this paper does not intend to be directly prescriptive because the analyses need more empirical grounding.

However, the analyses raise a fundamental issue in relation to strategic management in public organizations, namely the issue of different types of public organizations. The analyses of Porter and RBV show that the possibilities for applying the theories depend on the type of public organization. The paper analyses this issue by focusing on the main dimensions which have importance for the use of different types of strategic management in public organizations. According to the paper's typology, the degree of administrative autonomy, the degree of performance-based budget and the degree of market-like conditions combined are the factors that affect the need and possibilities for strategic management in the specific type of public organization. Depending on the degree of these three factors, public organizations can use different kind of strategic management. For instance, the paper claims that public organizations need to have a high degree of autonomy, a high degree of performance-based budget and a high degree of market-like conditions if they want to use Porter's strategic positioning. Therefore, strategic positioning is not relevant in the traditional public organization because they do not have a high degree of these three elements.

The paper is organized as follows: first a short review of the traditional comparison of the differences and similarities between private companies and public organizations in relation to strategic management; e.g. that the former focuses on profit for shareholders, while the latter focuses on public value for many stakeholders. The aim of this section is to develop a picture of the

traditional public organization. The next section presents Porter's strategic positioning followed by a comparison of its main assumptions and models with the traditional public organization. The following section does the same with RBV. These two sections discuss how the differences between private companies and traditional public organizations affect the possibilities for application of these two theories. It shows that there are important reservations especially to Porter's strategic positioning, but it also emphasizes the importance of understanding the difference between different types of public organizations. A typology of public organizations is presented in the last section to help clarify under what conditions different sorts of strategic management theories are most relevant and applicable. The paper ends with conclusion and guidelines for future research.

Public organizations versus private companies

There is a large body of literature on the differences between public organizations and private companies (Perry & Rainey 1988, Rainey & Chun 2005, Boyne 2002). As far as understanding strategic management in public organization, various papers seek to understand the differences between public organizations and private companies (Backoff & Nutt 1993, Moore 2000). Traditionally, however, it is a question of whether there are significant differences between public organizations and private companies (Allison 2004 (1980), Bozeman 1987). Some state that the differences are overrated and that private and public organizations can use generic management (Simon 1995), while others state that differences are all-important. This paper argues that we need to understand the differences, but as the paper shows later it is important to understand the differences between the different types of public organizations because they can be more significant than the differences between some types of public and private companies. The reason for making a comparison here is to have a common picture of public organizations to compare the strategic management theories against. So the plan is to make a traditional view of public organizations where first the applicability of the strategic management theories can be analysed and then try to introduce the differences between public organizations later in the paper.

According to Mark Moore the special characteristic of public organizations is that the goal is to create public value (Moore 1995), unlike private companies where the goal is to create shareholder value – i.e. maximise profit in the long term. In public organizations the goal is to achieve a social mission/mandate for stakeholders (Moore 2000). This shows two fundamental things about public organizations in relation to strategic management which are important to remember: First, they have

a mandate which it is their mission to fulfil, and this is often forgotten in the literature about strategy in public organizations (Bryson 2004). Second, there are more stakeholders to satisfy (Bryson 2004). The way to generate money to fulfil the mission is not like in private companies where it comes from revenues from sale – in the public sector the money comes from tax appropriation (Moore 2000). Finally Moore defines the way to goal achievement, which is very interesting here: Private companies do it through finding and exploiting the firm’s competences and by positioning, which could be a classic definition of strategic management combining the resource-based view of strategy and strategic positioning. Public organizations achieve their goals by finding better ways (efficiency and effectiveness) to fulfil their mission (Moore 2000). Backoff and Nutt also have a very thorough comparison of public organizations and private companies in relation to strategic management (Backoff and Nutt 1992, 1993). The following summarises the most important differences and briefly describes how some types of public organizations change due to NPM.

Traditional public organizations, private companies and public organizations after NPM

Traditional public organizations	Private companies	Public organizations after NPM
<i>Environmental and relational</i>		
Oversight bodies compose market	People’s buying behaviour defines market	Competition and free choice make buying behaviour more important but boundaries for market size are still a political decision
Collaboration among organizations offering a given service	Competition among organizations offering a given service	More competition but still also collaboration. More diversity between types of public organizations
Financing by budget allocations (free services)	Financing by fees and charges	More activity-based budgets and performance-dependent funding but still not much user payment
Mandates and obligations limit autonomy and flexibility	Autonomy and flexibility limited only by law and internal consensus	More disaggregation which gives more autonomy to public organizations but still limits due to political regulation of the boundaries for the public organizations actions
Political influence stems from authority network and from users	Political influence is indirect	More autonomy because of disaggregation but still political influence and especially through the users (more free choice)
People must fund and consume the organization’s services	Consumption voluntary and payment based on use	E.g. free choice reduces the coerciveness of public organizations
Ownership public and multiple stakeholders. Citizens often act as owners and impose their expectations about organization’s activities	Ownership clear (shareholders) and fewer stakeholders	Still many stakeholders, however disaggregation gives fewer but also stronger stakeholders because they have a more well-defined opponent. Citizens still act as owners (even more because of the customer perspective)

<i>Organizational</i>		
Goals are shifting, complex, conflicting and difficult to specify	Goals are clear and agreed upon	Goals are clearer e.g. due to more performance orientation and more disaggregation
Equity-dominant concern	Efficiency-dominant concern	Efficiency a key word in NPM but equity still important
Authority limits because under a governmental umbrella where implementation is contingent on stakeholders beyond the authority leader's control	Agency management largely independent on outside influences	More disaggregation gives more control but still political influence especially regarding the boundaries of the public organizations
Performance expectations are vague and in constant flux, changing with elections	Performance expectations are clear and fixed for long term periods, creating urgency	Performance expectations are clearer because more autonomous public organizations and more demand for making performance visible

* First two rows summarised from of Nutt and Backoff (1993) while the third row is my own adaptation

As shown there are differences between traditional type of public organizations and private companies. The following analysis primarily focuses on the possibilities for applying the two strategic theories in the *traditional* public organizations. The focus later shifts to the differences between different types of public organizations, which are shown to affect the possibilities for application of the different strategic management theories. But first the paper analyses strategic positioning and RBV in relation to the traditional public organization.

Porter's strategic positioning and traditional public organizations

Strategic positioning is about choosing a clear strategy and positioning in the industry² to exploit market imperfections. Michael E. Porter is the main author on strategic positioning and the one this paper focuses on (Porter 1980, 1985, 1991, 1996). However, since he is a very productive writer (also known for his diamond of national advantage and strategic group theory) not only in the strategy field but also in social sciences (e.g. rated as the most important thinker - source www.thinkers50.com), it is very important to clarify that this paper concentrates on his strategic positioning, especially his theories of competitive advantage and generic strategies, the 5 forces model (Porter 1980) and partly the value chain model (Porter 1985).

To understand strategic positioning it is important to understand the theoretical background.

Porter's main ideas have roots in industrial organization (e.g. Bain 1959) – a subfield of neoclassic

² Industry boundaries are set by competitors while market boundaries primarily are set by customers. However, sometimes the term market is also used in the sense of an industry, and in reality they can be difficult to separate. Therefore, this paper does make a clear distinction and sometimes uses the concepts interchangeably.

economics – which focuses on concepts as economics of scale and scope. However, in the classic industrial organization literature the unit of analysis is the whole group of organizations (the industry), while Porter in his strategic positioning focuses on the single organization in the industry: how can the organization best be positioned in the industry to achieve a competitive advantage, or in more simple terms how should the (private) organization manoeuvre to earn a profit. The competitive advantage is a fundamental concept for Porter and strategic management literature in general (Cockburn et al. 2000). The idea is that the organization has an advantage compared to the others (competitors), which it can use to make profit. However, competitive advantage is not enough; it is also important that it is a sustained competitive advantage. The question for Porter is often how the organization can use market imperfections to appropriate most of the total value created. The primary focus is capturing value and not so much creating value though some part of his work has a more value creating focus, e.g. the value chain.

The way to achieve a competitive advantage is to choose a clear strategy. According to Porter there are two different overall generic strategies: *Low cost* with focus on cost advantage, and *differentiation* with focus on offering different products or services than competitors which customers are willing to pay for (Porter 1980). Finally there is also the focus strategy where the strategy is to focus on a single special group of customers or products with either focus on low cost or differentiation. The important thing for an organization is to choose one clear strategy; otherwise it will be stuck in middle as Porter expresses it (1980).

One of the fundamental models in Porter's strategic positioning is the 5 forces (Porter 1980), which is the most used strategic management model in private companies. The model explains the attractiveness of industries through 5 different forces. First the attractiveness depends on the *bargaining power of suppliers* and *bargaining power of buyers*. The more power they have, the less attractive the industry. Then the *threat of new entrants* and *threat of substitutes* also lessen industry attractiveness, and finally the *industry competitors and their degree of rivalry* affect industry attractiveness. Based on this industry analysis, the organization should choose which industry to be in and its position (generic strategy) in that industry, but it should also use the model to make its own industry more attractive: for instance by creating entry barriers for new entrants etc.

Another aspect of strategic positioning is that the strategy affects all parts of the organization. This is captured in the value chain model (Porter 1985), which focuses on all the activities that are required to bring the product or service to the end customer (or user). The important thing is that the chosen strategy is applied throughout the chain.

To sum up two of the most important ideas behind strategic positioning: Strategy is about making *choices* (or trade offs), e.g. of overall strategy, of industry but also of what not to do (Porter 1996), and about *fit* (Porter 1996) – the idea that the strategy should fit the organization, the context etc.

However, the important question here is whether this strategic positioning can be applied in public organizations. It clearly receives less attention in the literature on strategic management in public organization than in the literature on strategic management in general (in private companies). Few papers discuss strategic positioning and it is even harder to find empirical studies (survey, case studies etc.) that use the strategic positioning concepts in public organizations. The literature offers different answers to why there are problems using Porter in public organizations: One claims that it is difficult for public organizations to know what industries they are in and which forces are influential (Bryson & Roering 1987). However, this is also a problem in many private companies. Furthermore, strategic positioning focuses on competition while traditional public organizations focus more on collaboration (Bryson & Roering 1987). Ferlie has a precise description of the problems with applying strategic positioning in public organizations. He argues that it is because of its strong focus on markets, competition and competitiveness, which are concepts that are difficult to apply literally because they are underdeveloped in the public sector (Ferlie 2003). On the other hand they are becoming more important in parts of the public sector where there is a change towards against what Ferlie calls quasi-markets (Ferlie 2003, 1992). Both of Ferlie's points are analysed more thoroughly in this paper: that the concepts do not match public organizations and that part of the public sector is changing towards something where these concepts can be applied. Later it is analysed how it affects the possibilities for application of strategic management theories when some public organizations change due to e.g. New Public Management initiatives. First we will analyse the possibilities for applying strategic positioning in *the traditional public organization* and look at what the problem is with some of the fundamental concepts in strategic positioning. Later the paper focuses on whether it can be used in other types of public organizations.

First, the overall goal when using strategic positioning is that the organization gets an advantage over its competitors which it uses to earn higher profit. The problematic in public organizations with this kind of strategic management thinking is that it focuses on appropriation of value to the organization by using market imperfection and not on creating value or ensuring overall efficiency. The focus is on profit for shareholders where public organizations traditionally have multiple stakeholders to serve with a specific mission or mandate (Moore 2000, Bryson 2004).

Second, strategic positioning also has assumptions which do not match the situation of a traditional public organization because it focuses on choosing, for instance which customers or markets to serve and with which generic strategy. The problem in public organizations is that this kind of freedom to choose is not possible because they have a mandate to fulfil. They are not free to choose their markets or customers (read citizens); especially, they are not free to choose which markets or customers they do not want to serve. The concept of generic strategies is also difficult in public organizations, again because they can't choose customers who are willing to pay extra. Still Porter's focus on the external can be an important aspect of strategic management in public organizations, but the overall focus should be on value creation for all relevant stakeholders. Therefore the external focus could e.g. be more in terms of stakeholder analyses (Bryson 2004).

But there are parts of Porter which can be applied - especially the value chain concept could be applied in public organization (Bryson 2004) because fundamentally it is about ensuring alignment between the parts of the value creating activities. And generally the concept of fit is equally important in public organizations and private companies.

Even though parts of strategic positioning can be used, the overall analysis shows that there are difficulties in applying strategic positioning in traditional public organizations. Later in the paper we show how differences between types of public organizations affect the application of strategic positioning where the argument is that especially New Public Management oriented public organizations have better possibilities for applying strategic positioning because they fundamentally are made to look more like private companies. First, we turn to the RBV of strategy to analyse the possibilities for it to be applied in the traditional type of public organization.

The Resource-Based View of strategy and traditional public organizations

The literature on RBV, the second theory of strategic management investigated here, is much more fragmented than the literature on strategic positioning. However, it has an internal focus on strategy in common, according to which the organization's internal resources are the main source of competitive advantage. The literature has really been growing since Wernerfelt (1984), Hamel & Prahalad (1990), Barney (1991), Peteraf (1993) etc. focused on the organizational resources, also under the name of core competences and capabilities. Resources have been in focus earlier in the strategy literature (Penrose 1959), but especially Barney's version of the RBV has been widely used (Newbert 2007). The following primarily focuses on this version even though a more recent variant of RBV, e.g. dynamic capabilities, has been very popular in recent years (Teece, Pisano & Shuen 1997, Eisenhardt & Martin 2000). It focuses on processes, path-dependency and organization because they are the important aspects of competing in a highly dynamic environment. In comparison, RBV is criticised for being too static (Teece, Pisano & Shuen 1997).

The fundamental assumptions in Barney's RBV are that firms are *heterogeneous* with respect to their resources and that resources are *not perfectly mobile* (Barney 1991). The goal of using a RBV strategy is still to gain a competitive advantage by implementing a value creating strategy that is not simultaneously being implemented by others (competitors), and it is sustained when others (competitors) are unable to duplicate it (Barney 1991). Therefore, the fundamental goal of strategy in RBV is to exploit and develop the organization's heterogeneous resources to gain a competitive advantage and to earn a higher profit than the competitors. An important question is then what characterises these resources. Here Barney introduces the influential *VRIN* framework (Barney 1991), later changed to *VRIO* (Barney 1995, 1997). According to *VRIN*, resources need to be Valuable, Rare, Inimitable and Non-substitutable and later also *Organization* if they are going to lead to a competitive advantage.

The fundamental idea behind the RBV can be summed up as having focus on *efficiency* because strategy is about using the organization's internal resources most efficiently to gain a competitive advantage (Teece, Pisano & Shuen 1997) and *value creation*, which two of the founding fathers of RBV argued to be a key concept in their joint work on clarifying the RBV concept (Peteraf & Barney 2003).

Compared to Porter's strategic positioning there has been a bit more focus on RBV in public organizations the last years. For instance some empirical investigations of the resource-based view of strategy in public organizations, e.g. Carmeli and Tishler (2004), show that there is a positive relation between elements of the resources and public organizations' performance and there have been studies of how to use RBV in public organization (Bryson et al. 2007, Pablo et al. 2007). The question raised here is whether there are theoretical reasons for possibilities for or limits to applying RBV in public organizations. Ferlie argues that RBV can be used because templates of strategic resources used in private companies are also relevant in public organizations (Ferlie 2003).

Still, RBV has focus on profit and on achieving a competitive advantage as the overall goal and on making strategies that cannot be imitated by others. Both things are problematic when talking about the traditional type of public organization. However there are also important differences compared to strategic positioning. First of all a very important aspect about RBV is that it focuses on value creation – how to use and develop resources for creating value. It is an important assumption that is very different from many other concepts of competitive advantage and sustained competitive advantage in strategic management, for instance strategic positioning, which often focuses on how much value the shareholder can earn in form of profit. These other strategic management theories can be said to have value appropriation in the centre instead of the value creation. This is also Peteraf and Barney's argument for why RBV is more suitable for other types of organizations than private companies – they point to the non-profit organization (Peteraf & Barney 2003). However, the argument also holds for the public organization.

In the same line, a lot of RBV literature focuses on efficiency (Teece, Pisano & Shuen 1997), which is also relevant in traditional public organizations because it is important to use the resources efficiently (note that there are also other goals in the public sector, e.g. equality). So even though both strategic positioning and RBV focus on profit (or rent) it is important to recognise that the focus is different. Where Porter focuses primarily on achieving rent from positioning in the industry and thereby using market imperfection to appropriate value, which can be a way to achieve monopoly rent through protection and barriers for competitors, RBV, on the other hand, focuses more on becoming better than competitors at implementing value creating strategies with focus on exploiting resources best possible, which is more like Ricardian rent which is achieved by owning a valuable resource that is scarce (Mahoney & Pandian 1992). The difference between strategic

positioning and RBV has also been characterised as strategizing versus economizing (Williamson 1991), where strategizing is about market power and economizing is more about efficiency (Teece, Pisano & Shuen 1997).

RBV's focus on value creation and efficiency points to the possibility of applying RBV in traditional public organizations. But when analysing the RBV literature, the most common way to distinguish resources to create value and efficiency is to use the VRIO framework (Barney 1995, 1997). However, the question is whether this framework primarily focuses on value creation and efficiency or perhaps also on value appropriation. By analysing the VRIO framework in the public context, it is naturally also important in public organizations that resources are *valuable*. On the other hand, the concept that resources need to be *rare* and *inimitable* is not necessarily a good characteristic in traditional public organizations. The rareness focuses on the fact that few other organizations have the resources. To be inimitable in RBV, it is important for the organization to have the resources for itself because it helps you gain a comparative advantage over other organizations. However, in public organizations it is not the ultimate goal to ensure that you have some resources that others do not have or cannot get. Nearly contrary the goal is to fulfil the organization's mandate and mission. This can sometimes best be reached by sharing your resources and letting other organizations imitate them – through collaboration. Finally, the *organizing* part of using the resources is naturally also important in public organizations.

The conclusion about RBV in traditional public organizations is that it is theoretically reasonable to focus on the organization's heterogeneous resources and on the resources being valuable and organized to create value and efficiency. On the other hand the RBV focus on keeping (isolating) the resources for the organizations itself is not line with the traditional type of public organization. It can be contrary to the to value creation – not for the organization – but for the stakeholders. Still, the overall goal in RBV is competitive advantage and profit. So the different contexts for private companies and public organizations are also important in relation to applying RBV. Still, the type of public organization is important because those public organizations that have been changed to quasi-market organizations need to use market logic with focus on competitive advantage, competitors, quasi-profit etc.

Strategic management in different types of public organizations

Until now the focus has been on two different strategic management theories – strategic positioning which primarily has an external focus and RBV with primarily an internal focus. Naturally, both theories also focus on the other aspect, but not as their primary focus. Both have as their goal competitive advantage (and especially sustained competitive advantage), i.e. to earn more profit in the long term (for their shareholders) than their competitors. But as the paper has argued there are also important differences between the two theories: Where strategic positioning concentrates primarily on value appropriation, RBV concentrates more on value creation, for instance in terms of efficiency, which makes it more applicable in public organizations.

Still, the concepts of competitive advantage and sustainable competitive advantage are problematic in traditional public organizations because the end is profit for shareholders and not to create value for all stakeholders. However, there are also important reservations to this critical view of possibilities for applying of these theories in public organizations, because among the different types of public organizations some are actually meant to act more like private companies (Beckett 2000). These public organizations which act more like private companies are a fundamental part of many modernisation programs like New Public Management, Reinventing Government etc. where the goal is exactly to create more autonomous public organizations (Pollitt et al. 2004) with more well-defined narrow groups of stakeholders which they have to serve. They are more accountable for their performance, their budgets are dependent on their performance (Hilton & Joyce 2003), and they have to work on more market-like conditions with competition (Kettl 1993). In these public organizations the more competitive types of strategic management theories like strategic positioning make more sense because the goal of public organizations here is to act like private companies. And the reason for introducing these kind of public organizations in the public sector is that competition all in all should give a more efficient and effective public sector.

This section focuses on these differences between public organizations. The argument is that the differences between types of organizations influence not only the need for strategic management but also how applicable and relevant different types of strategic management theory are. The paper shows how some types of strategic management theories are better applied in some types of public organizations. As mentioned, the public sector is going through changes due to modernization programs and different New Public Management initiatives, but an important aspect of these

initiatives is that the changes affect different types of public organizations differently – some go through major changes, while others are not affected (Pollitt & Bouckaert 2004). Therefore, it is fundamental to understand which type of public organization you are dealing with when analyzing whether to use strategic management or not – and when analyzing which type of strategic management to apply. This paper offers a typology for answering this question. The term typology is used in the broad sense of the word. However some might call this paper's typology a classification scheme (Doty & Glick 1994).

Among the many typologies of public organizations, one of the most cited in the literature is Perry and Rainey's (1988, Rainey et al. 1976) which is based on 3 criteria: ownership (public/private), funding (public/private) and social control (polyarchy/market). This typology is very clear and useful but its primary focus is on the whole area between public organizations and private companies. This is also here a lot of the new work on public management is done focusing on these organizations which are not either public or private but a cross between (Beck Jørgensen 1999) for instances under the name of quangos (Greve et al.1999, Pollitt & Talbot 2004) because the boundaries between public and private are blurred (Rainey & Chun 2005). But here the focus is only on public organizations that are both public owned and public funded - the two first characteristics in Perry and Rainey's classic typology (1988). Therefore, the typology in this paper only uses a modified version of their idea of social control (polyarchy versus market) as one of three dimensions. The first dimension in this papers typology is the *degree of market-like condition*. The question is whether the control is primarily political or performed via some form of market-like condition. Furthermore, it is important to understand that this is a continuum with many different degrees of market-like condition in between e.g. internal competition. One thing which indicates the degree of market-like competition is how threatened the organization's survival by the market-like competition. If the public organization can be forced to close due to the competition, the market-like competition is high.

Two other much used typologies of public organization are Wilson (1989), who distinguishes between types of public organizations through two criteria: how observable is output and outcome; and Dunleavy (1991), who distinguishes between public organizations based on their budgeting. These two typologies focus on two fundamental aspects: Wilson focuses on output and outcome, which is a very performance-oriented framework, and categorizes public organizations according to

how their performance can be observed. Dunleavy focuses on the public organization's budget, which is the basis for what the organization can do and achieve. This paper's typology combines the two variables and focuses on the *degree of performance-based budgets*. Because performance measuring has been used for so many different purposes (Behn 2003) and some with major problems in the public sector, it is important to understand the reason for using performance measurement, and here it is to make performance-based budgets and more precise budgets which are funded due to performance (Jordan & Hackbart 1999). Do the organizations have totally fixed budgets without relation to their performance in that specific period, or in the other extreme is their budget totally based on their performance (e.g. through activity based budgets)? This dimension is closely related to the distinction between input-based versus output-based budgets where the trend with NPM has been a movement towards more output-based budgets (Rubin & Kelly 2005). Still, there can be problems with making the budget depend on the performance because there is a tendency to focus on the aspects which are measured while forgetting the performance which is not measured. Furthermore, many public tasks have a character which makes them difficult to measure (Wilson 1989). Therefore, the argument here is not that we need more performance-based budgets or the contrary but that the degree of performance-based budgets influences the possibilities for applying strategic management. Furthermore, it is important to understand that different public organizations serve different ends which is also Olsen's argument for the need to rediscover bureaucracy where bureaucracy is one of the types of public organizations we need (Olsen 2006).

The last dimension in the typology is the organization's *degree of administrative autonomy*. Autonomy or freedom to act is a very complex concept with many uses. A traditional distinction is between economic and administrative autonomy. In the former, the organization has economic freedom, which often is combined with competition, in the latter the organization has administrative autonomy or freedom to manage as it wants (Chubb & Moe 1988). Here, we focus on administrative freedom because economic autonomy is closely related to the degree of performance-based budget in the sense that you have more economic autonomy if you can influence your budget size directly. Still, autonomy is probably the most fundamental aspect when it comes to strategic management because it sets the boundaries for strategic action. In the traditional strategic management literature about private companies, autonomy is not a big issue - probably because it is expected that companies have autonomy to act. But in public companies this is not necessary the situation because public organizations can be restricted by their mandate (Bryson 2004) and by

regulation and law (private companies are naturally also restricted by regulation and law). Fundamentally the politicians decide the degree of autonomy of the organization which traditional has been highlighted as a constraint in relation to the strategy in public management (Ring & Perry 1985). Thus, the reason for introducing this dimension is that in many countries the politicians have given some public organizations more autonomy due to different modernization program (Pollitt & Bouckaert 2004). The goal of many of these modernization programs has been to make semi-autonomous agencies (Pollitt et al. 2004) based on the expectation that they perform better than the more traditional highly regulated public organizations.

An important question in relation to these three dimensions is whether they are separate dimensions or not, and furthermore what the relations between them are. The argument in the paper is that there are connections between the dimensions, but still it is three different dimensions. The first dimension is how much freedom the organization has to manage the organization in relation to achieving its mission; the second is how the organization receive their funding for achieving the mission and whether it varies with their performance; and third whether the organization compete with others in achieving its mission in the best and most efficient way. At first, it seems as if there is a hierarchy with autonomy first, then budgets, and then competition. Thus, this is often the case, but it is not necessarily always the case. Therefore, if we look at the typology schematic we have the following 8 possible types of public organizations.

Types of public organizations

	Degree of administrative autonomy	Degree of performance-based budgets	Degree of market-like condition
1	-	-	-
2	-	-	+
3	-	+	-
4	-	+	+
5	+	-	-
6	+	-	+
7	+	+	-
8	+	+	+

(Own adaption)

Based on this typology, there are two extreme types of public organizations where all three dimensions either are low or high. The first example could be the classical bureaus with task of authority (e.g. issuing passports or building licences) which are highly regulated, traditionally have fixed budgets regardless of performance in that period and finally not in competition in a market-like situation. The second example could be private-like new public management inspired agencies (e.g. elderly care in some countries or some types of schools, both with free choice for the citizen) where the freedom to act is high and not much restricted by laws (notice that also private companies are restricted by laws), they have performance-based budgets and finally work in equal competition with private companies and close if they cannot compete.

The question is how this typology helps analyse the application of strategic management theories in public organizations. In a very general perspective, the need for strategic management is highest 1) when there is a high degree of freedom to act because if everything is regulated there is no room for strategic management and 2) when there is a high degree of performance-based budget because if the budget is fixed the results of the use of strategic management would not be as necessary as if the only budget the organization get is according to their performance. And finally the need for strategic management is highest 3) when there is market-like condition because this threatens the survival of the organizations which increases the need for strategy. Again this is just an attempt to give a general perspective which is impossible because strategic management can be understood in many different ways. Therefore, there is a need to look at each theory in relation to the different types of organizations.

Looking at Porter's strategic positioning, it is clear that the possibilities for application are best when there is a high degree of all three. Autonomy is especially important because one of the fundamental aspects of Porter is that the organizations choose (Porter 1996): their strategy, their industry etc. Furthermore, the market-like condition is also extremely important because the goal is to achieve a competitive advantage by using market imperfections (Porter 1980). This indicates that strategic positioning is built on an assumption of market-like condition. Finally, the goal of strategic positioning is to perform better than competitors (to earn more profit) which assumes that the budget funding is performance-based.

The Danish upper secondary schools are an example of public organizations where strategic positioning potentially could be applied because their conditions have changed as a result of the Danish Structural Reform (Agreement on Structural Reform 2004). First, the upper secondary schools have got more autonomy because they are now self-governing with their own boards. They have now responsibility for more tasks: e.g. they decide which study directions the school should offer the students, and in the long run they decide the size of their capacity for students etc. Furthermore, their budgets have changed from fixed budgets to taximeter-financing so that they now get budgets according to the number of students getting an exam. Finally, they now have to really compete against other schools because where upper secondary schools earlier were ensured students because a public committee in the counties allocated the students for the different schools they now have to compete against other schools for students. However, the upper secondary schools are still public organizations because they are public owned and public funded, and they are still limited by their mandate.

Still, the argument is that strategic positioning potentially could be applied in the secondary upper school because each school now has a choice of where it want to position itself in the “industry” of upper secondary schools: e.g. they can differentiate themselves by offering particular study directions, or they can even merge with other schools such as business colleges or other upper secondary schools. Furthermore, they compete with the other upper secondary schools not for appropriating profit but for the number of students as it influences the size of their budget. So even though they are not profit-oriented the mechanisms are still that they could focus on appropriation – here the appropriation is just about students. Therefore, strategic positioning could potentially be applied. Thus, there are still a lot of factors that could influence that the school do not apply strategic positioning. First, there could be different institutional factors especially path dependency. In this example, the leaders of schools (the principals) have, for years, primarily focused on pedagogical leadership and the professional norms in that area. The professional norms are a classical constraint in relation to application of different management theories in the public sector, but the important aspect here is that the schools can apply strategic positioning if they want to because their situation has changed.

In RBV, there is also a need for some autonomy, although not to the same degree as strategic positioning, because it is not about choosing, but more about creating value and efficiency (Peteraf

& Barney 2003). However, it could be argued that there is a need for performance-based budgets because that would indicate value creation and efficiency. Finally, the degree of market-like condition needed depends on which aspects of the RBV focus is on: if the focus is on value creation and efficiency there is not necessarily a need for a market but if the focus is on competitive advantage and isolating the resources then the market-like condition is a fundamental assumption.

As indicated there is a need for understand the whole typology, both because there are many different types of organizations but also because different strategic management theories have different focus. Until now, the different dimensions have primarily been treated as either high or low degree or like a dichotomy, but there can be different levels in continuums, which give even more different combinations. Likewise it is important to analyse whether the dimensions are exogenously or endogenously given. Analyzing the 3 dimension the overall picture is that all 3 dimensions are exogenously given but it is also important that public organizations can try to influence and change these dimension e.g. by influence the politicians in their regulation of the organizations autonomy and their budget.

Still, some of the general advise regarding strategic management in public organizations are still relevant in all types of public organizations e.g. the importance of understanding a public organization's mandate and their stakeholders which is a main assumption in the literature about strategic management in public organizations (Bryson 2004).

The argument of the paper could be summaries in the following three main propositions:

Proposition 1: Strategic management theories focusing on strategic positioning and market competition and how to use market imperfection to earn profit are less likely to be applied successful in *traditional public organizations* than strategic management theories focusing on exploiting and developing the organizations resources with the goal of value creation and efficiency

Proposition 2: The usefulness of strategic management theories made for private companies depend on *the types of public organization*: the higher degree of a) autonomy, b) performance-based budget, and c) market-like condition the more likely it is that strategic management made for private companies is applied successfully in a public organization.

Proposition 3: The usefulness of *different* strategic management theories depends on the type of public organizations. E.g. Porter's strategic positioning can potentially be applied in New Public Management inspired organizations but not in the traditional public organization.

Conclusion and direction for future research

The literature about strategic management in public organizations is a growing field, but it is also immature in terms of clear theoretical grounding. Therefore this paper analyses the applicability of strategic management in public organizations - not generally because there is no consensus about what strategic management is - but in relation to two specific strategic management theories, Porter's strategic positioning and RBV of strategy. The conclusion is that it is important which type of public organizations you analyse because the applicability of the theories depends on the type. If the organization is a traditional public organization that is highly regulated with fixed budget and not working on market-like conditions then a strategic management theory like Porter's strategic positioning cannot be expected to be applied successful because it focus on value appropriation and choice. But if the organization is more like a New Public Management organization with a high degree of autonomy, performance-based budgets and market-like conditions then strategic positioning is more applicable. The analysis of the applicability of RBV is more ambiguous in relation to the traditional public organizations because it, on the one hand, focuses on value creation and efficiency which also is fundamental in public organizations, and on the other hand, it focuses on profit and inimitableness which is not in line with the traditional public organization. In relation to the typology, RBV does not demand a market-like condition but applying RBV requires that the organization has a high degree of autonomy and probably also some degree of performance-based budgets if its is going to ensure focus on efficiency. One general aspect that is important when considering the applications of different strategic management theories in public organizations is analysing how important the profit orientation is in the theory. This is a significant contrast to public organizations where the goal still is the mission or mandate and not only focusing on shareholders but on their different stakeholders - this also holds for New Public Management organizations, although they have sometimes element that make them seem like profit-oriented organizations with focus on a narrow group of stakeholders. The implication of this paper is therefore, that it is not possible to determine the application of strategic management in public

organizations without knowing the type of strategic management theory and the type of public organization.

The future research needed is more empirical studies of the applicability of different strategic management theories in public organizations, including both surveys to form a general picture and more qualitative studies studying of the applicability of different theories in practice. Furthermore, there is also a need for more operational typologies of different types of public organizations because it is important to understand the differences between types of public organizations, especially after the last two decades of modernization because public organizations are much more diverse today. Finally, some of the most important work would be to try to integrate the question of application in different types of public organizations with the performance of the organizations.

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