Gloria Wyszynski

Bachelor Programme in Business and Administration
Faculty of Law, Administration and Economics
University of Wrocław

Public and private organizations

Organizacje publiczne i prywatne

Summary

In this paper author focuses on the inquiry into whether and to what degree public and private organizations differ.

Keywords

public, private, organization, differences, similarities

Streszczenie

W artykule autorka koncentruje się na różnicach występujących pomiędzy organizacjami publicznymi i prywatnymi.

Słowa kluczowe

publiczny, prywatny, organizacja, różnice, podobieństwa

INTRODUCTION

In the business world, there are what you could think of as two separate universes. One universe would be the public sector, and the other would be private. Truly, often these two sectors are treated as separate entities, filled with differences and never quite aligned in terms of conversation and attitude. In reality, there are quite a few differences between the two, however, there are also some similarities and complex natures of the two that deserve to be mentioned, when applicable. In this day and age, organizations alike are changing at lightning speeds and with that come the inevitable overlapping of ventures, both private and public. There are numerous studies on this topic which goes to show that indeed it is quite controversial and multi-sided. Because of how quickly organizations themselves change, it is only natural to realize that perhaps the differentiations between the two also slowly change, especially in terms of operation and motives.

This paper will try and analyze both types of organizations in terms of a number different categories and will mention similarities when they exist. The categories include:

- goals,
- goods and services,
- resource ownership,
- structure,
- culture,
- leadership,
- decision making [Khan, Khandaker, 2016].

These categories are crucial as they all include information that can highlight the differences and similarities of the two seemingly very different types of organizations. Towards the end of this paper, we will also discuss a new category, entrepreneurship, as it applies to both sectors. This of course will mention all the new information in both forms of organization in terms of how innovation, ideation, and communication can be applied in this new day and age.

Before going any farther, it is helpful to go a little deeper into what exactly we mean when we say "organization". An organization in the simplest of terms is an organized group of individuals with a particular purpose. Business organizations, then, are groups that work towards a certain interest. Organizations are all around us and have an influence in every aspect of our lives, whether we realize it or not. From little stores, giant conglomerates, to government departments, organizations play a big part in our day to day. As a general overview, private organizations are commonly viewed as being the organizations created to create profitability and are owned privately, meaning not by the government.
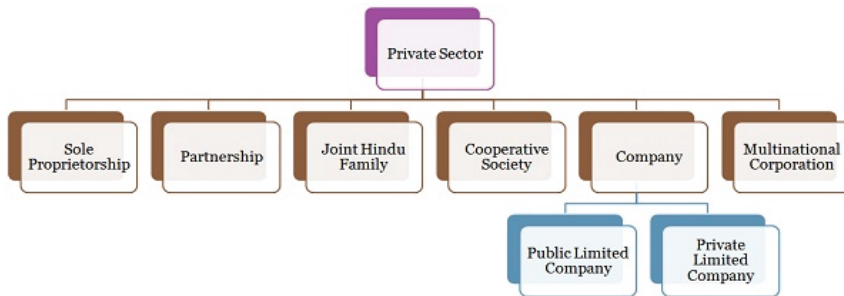

Fig. 1. "Private Sector Organizations".
Source: Surbhi, May 20, 2015.

One thing to note is that just because part of the definition of a private organization is "for profit", doesn't mean that the companies are only operated by individuals looking out for themselves. An example of this is that non-profits can also be considered private

organizations as not all are operating on governmental grants. Non-profits are more commonly known to be part of the voluntary sector, or the third sector apart from the public and private, to avoid confusion.

The government runs what we call the private sector, or private organizations. These private organizations are created for the purpose of carrying out governmental activities such as providing services for citizens, create infrastructure, forming national armies in the military, and creating police forces.
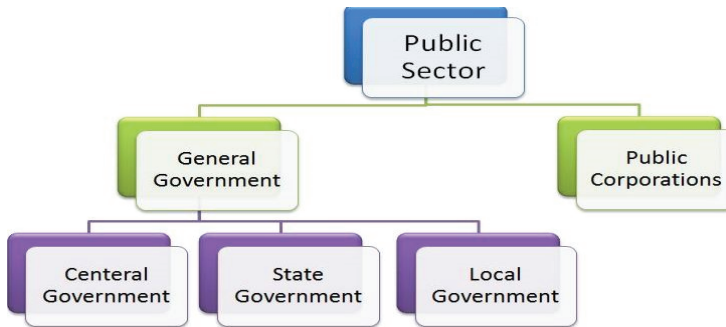

Fig. 2. "Public Sector Organizations".
Source: https://www.examrace.com/Current-Affairs/NEWS-Public-Sector-Enterprises-General-Studies-Paper-2.htm, access date: 13.07.2018.

1. Goals

In terms of goal differences between public and private organizations, there are many [Perry, Rainey, 1998]. For starters, as was mentioned earlier, private organizations work to achieve profit for the company and to appease stakeholders, they are ruled mostly by individuals and have to abide by market forces. Public organizations are ruled by political forces and rely on the government. It can be said that the goals of the public sector are often vague and intangible as they are complex in nature and are exposed to more accountability. When something goes wrong, everyone is quick to jump on the government and public organizations due to the idea we have that they work for us, and that our taxes better be going towards making the public sector as efficient as possible. Having said this, many of the goals of the public sector are to uphold this accountability we desire and to handle more scrutiny. The goals of the private sector can focus more intensely on niche goals and desired outcomes and deal with a lower level of scrutiny from the public [Wirick, 2009].

Despite the level of scrutiny faced by public organizations, they have the capacity of surviving on poor efficiency and lack of organization. This would be because they are

essentially backed by the government which is very vast and powerful. On the other hand, private companies cannot handle a high level of scrutiny if it comes along with a number of law suits and lack of business. Organizations that are privately owned and fail to succeed will often die quickly and have little impact. This differentiation between the two often mean that the goal setting is different and the external forces will have different influences on the sectors. Another interesting piece of information regarding goal setting between the two types of organizations is that public organizations often can't choose what their goals are in the first place. While private organizations often have unlimited reign on goals and desired results, public organizations are often overlooked by interest groups and are constantly faced with legislative regulations and political agendas. In terms of similarities, there is one that could be mentioned. Namely, there are some public organizations in industries that are created for profit making purposes in order to contribute to the economic development of the country. These organizations face competition for resources and must choose particular management strategies much like a privately owned organization [see more: Alfrod, Greeve 2017; Osborne, Gaebler 1992].

2. Goods and Services

Without a doubt, there a lot of differences to be noted here. Firstly, in terms of goods and services, those which are coming from the private organizations depend on the market and demand of the customers [Khan, Khandaker, 2016]. Furthermore, the organizations face the inevitable competition from similar industries and the products/services are rival. On the other hand, the public organizations do not exist in a competitive landscape. Even if there would be competition, the public organizations enjoy the dominant positon in that situation. One thing that can be said of this, however, is that it causes some issues such as the public taking advantage of some services without bearing any of the cost. This is what we call a free-rider problem. For example, there are those who enjoy governmental benefits such as health care and food stamps because of their unique position of not being able to function without it. There are those who don't pay taxes (which are what funds the public services) and yet get to enjoy the many things the public sector provides. This also applies to the safety we enjoy from our police stations and so on.

One of the most obvious differences when talking about these two types of organizations is quite simply the type of consumers. The difference is little yet distinct. The public sector provides its services to the general public. Namely, there are things that we cannot refuse as a service of the public service because of its intangibility. We cannot refuse to live in a country that is currently being protected by military forces that are funded by

the government. We receive mail by a mailman who is paid by the government, and we walk down the street safe from threats when the police are nearby. Conversely, the private organizations serve the "general consumer public" meaning it's the active consumers who go out of their way to buy products and services that are targeted.

3. Resource Ownership

When it comes to resource ownership, private companies are seen has having a very distinguishable structure whereas public organizations have one that is much less trace-able/distinguishable [Khan, Khandaker, 2016]. This is because private organizations are owned by individuals, something that is tangible and easy to identify such as an entre-preneur or shareholders. These are the people who own the property, physical or intel-lectual, and receive monetary benefits. Public organizations, however, have a different situation. Public ownership is not identified in terms of individuals but are owned by the government. Joint activities, however, have a mix of ownership in cases when the public sector chooses to partner with private enterprises. In terms of similarities, there are pub-lic organizations who have shares in the market meaning the ownership is at times more easily identified. An example of this is British Airways [Khan, Khandaker, 2016].

4. Organizational Structures

Organizational structure, which is the division of labor of members into a number of distinct tasks, plays a huge part in both private and public organizations [Rainey, 1997; Ouchi, 1977]. To be more specific, there are a few different types of structure that can be found in both. The structures found in these two types of organizations were de-signed to create the most efficiency and flow within that given organization.

When it comes to public structures, one can name the following:

a. vertical – vertical structures can be found in most governmental organizations. This is easily identified by a structure in which there are a few people are the top, and then an increasing amount of people are you go down towards middle management and then more in the lower level positons. The people at the top make the important decisions and the lower level workers carry out those tasks. The reason this can be found among many governments is because it allows for more defined task creation and a lower level of job confusion,

b. horizontal – horizontal structures are different than the vertical in the sense that there are only a few people at the top, but many right below them. This is a very

popular structure when talking about law firms, medical practices, or architecture firms. Other city and country social services such as educational programs may also find themselves using such a structure. It is also one of the structures that utilizes more of a cooperative model versus hierarchical order,

c. divisional – divisional structures are unique in the sense that function and responsibilities are divided based on specialty or geography. Organizations that use this are courts, such as federal courts. They are divided into regional circuits and most countries have multiple courthouses which are not affected by one another. Other organizations that use this structure are police and fire departments.

When it comes to private structures, it should be highlight that the private sector has many different structures, all designed to achieve the most efficiency and benefit for the company. They also differ in regards to ownership and business goals. Here are a few of them:

a. sole proprietorship – can be found used by doctors, mechanics, beauticians, etc. Individually owned, the owner is the boss and the worker. It's fast paced and very efficient. One of the oldest forms of private business [State of Washington],

b. partnership – run by two to twenty members. Can be one of two types, ordinary or limited. The ordinary partnership is much like the sole proprietorship in the sense that there is unlimited liability. All partnership assets can be taken in case of loss. The limited partnership, there is a limit to how much can be taken in case of loss. In case of the creation of a limited partnership a Partnership Agreement must be constructed [State of Washington],

c. limited companies – two types, private limited and public limited. The private limited usually have two to fifty people and shares can only be sold to a certain number of people such as friends and family. In a public limited structure, shares can be sold to the public [State of Washington],

d. cooperatives – cooperatives are made up of members who pay member fees and it's the fees that provide the capital for the organization [State of Washington],

e. franchise – franchises are businesses that follow the methods and branding of an already established company. The companies remain exactly the same and are able to expand anywhere in the world. Franchisee owners run the company the same way the others are run. A good example of this kind of structure is McDonalds, Starbucks, etc. [State of Washington],

f. charities – charities are the non-profits in the private sector mentioned earlier. These organizations assist those in need such as education establishments,

or hospitals. They're not allowed to distribute shares as they are tax exempt [State of Washington].

Another way of differentiating between public and private sector structures is through the conversation of mechanistic/classical structure vs. organic/modern structure. Mechanistic structure is well known to the public sector and is much more formal and traditional than the organic structure. The structure lends itself well to performing in a stable, secure environment which is different than the private, organic structure that has to perform in the market with high levels of risk and change. These structures slowly change but still remain to this day a way of differentiating the two types of organizations.

Mechanistic Structure	Organic Structure
High horizontal and vertical differentiation	High complex horizontal and vertical integration
High formalisation	Low formalisation
Centralisation	Decentralisation
Standardization	Joint problem solving and interaction
Close Supervision	Personal expertise & creativity without supervision
Vertical communication	Horizontal communication

Tab 1. "Mechanistic structure versus organic structure".
Source: Khan, Khandaker, 2016, p. 2887.

5. Culture

Culture is an interesting topic when it comes to the differences/similarities between public and private organizations. There are a few different general observations that researchers have made when it comes to defining these two cultures and how they operate.

5.1. Private Culture

Often times people join the private sector in hopes of being able to climb a social ladder and have the opportunity of making a large amount of money. Many private sector organizations recognize this and thus create a culture that encourages self-growth and achievement as well as innovation and value. These things together create a culture that is inherently different than the public sector culture. The culture in private sectors can also be highly variable as the private sector is vast and contains many different types. There are areas in the private sector that could encourage creativity and team work thus creating a culture that is unique for that firm.

5.2. Public Culture

Unlike the private organizations, the government doesn't necessarily define itself in riveting new adventurous ventures and thus the culture is quite different. Considering they face large amounts of legislative law and regulations, the culture is more based on getting the work done as its planned out, without veering from the path. The culture is more formal and civil service and compensation rules of the government make it more difficult to encourage outstanding performance and discourage poor performance. In concept, there is more a culture based on supposed "integrity and honesty" as well as accountability to the public.

6. Leadership

In terms of leadership, the demands of leaders of both the public and private organizations are vastly different. The kinds of leadership portrayed are the ones that are selected to create the most efficiency and order in that given organization. The characteristics in leaders such as personality, skills, and abilities are sought out based on certain tasks and departments. For the private sector, leaders typically adopt what is called "strategic leadership" which is defined by its ability to respond to a certain situation/environment. In the case of the private organizations the environment is highly variable and contains risk meaning leaders must be proactive and able to adapt. There is also more discretion in the private sector than the public one as the public organizations are faced with more laws, rules, and oversight. Because of this, it can be said that public leaders have less capacity to exercise their leadership, whereas often times the private leaders are given more control and power to authorize decision making [Khan, Khandaker, 2016].

Political necessities are a focus of the public leaders and the pressure they face from interest groups and overseers creates an environment where there is high level of scrutiny and hindrance. This hindrance is what we see very commonly in cases where leaders have certain plans/goals but are not able to execute them. In cases where they are able to execute ideas, the process is often long and tedious while the decision making process is much shorter and quicker in the private organizations [Khan, Khandaker, 2016].

In terms of similarities, both types of organizations need at least some form of leadership and management. The difference between leadership and management is quite simple, management is more concerned with how to get things done and whether things are being completed in a timely manner, and leadership is more about how these activities influence the people involved and what the bigger picture is. It can be said that the goals of managers come out of necessities while leadership goals are more bent towards

culture and desires. Though both types of organizations need these managers and leaders, the differences outweigh the similarities. Private organization managers driven by profit whereas the public sector managers are more focused on accountability and public opinion. Because of the scrutiny and pressure of opinion and regulations, some researches stipulate that it is easier to be a manager in a public setting rather than a leader [Anderson, 2010].

7. Decision Making

Decision making means looking at a variety of problems and figuring out which way is the best way to solve that particular issue. These decision making processes can either be used to solve an issue, or to innovate and improve a company. Listed below are a few different methods of decision making as they are used in public and private organizations:

1. bounded rationality:
   a. similar to rationalistic with a few exceptions and limitations:
   - decisions must operate for the future and with all things relating to the future, there will be uncertainties,
   - information may not be available nor free, costs of information must be taken into account,
   - it is difficult to recognize all alternatives due to human cognitive restraints,
   - decision maker is vulnerable to emotions and bias; he/she cannot shut off subjective viewpoints from the decision making process [Online Dictionary].

   This model demonstrates that a decision must be deemed "good enough" as it'll never be perfect,

2. incremental model:
   a. based on a marginal or gradual change:
   - decision maker focuses only on those policies which differ "marginally" from other existing policies,
   - small numbers are considered,
   - few "important" consequences are evaluated,
   - opposite of taking huge leaps to make a decision and instead focuses on breaking the process down [Ghahrai, July 2, 2017],

3. garbage can model:
   a. views decisions are outcomes or interpretations of several relatively independent streams within the organization,

4. rationalistic model:

    a. a logical, multi-step model for choosing between alternatives that follow an orderly path starting with problem identification to solution. It favors objective data and assumes that the decision maker has all the perfect information (data that is relevant to a particular decision and is available).

Based on these definitions, researchers stipulate that it is hard to determine exactly which types of organizations work best with any of the methods, though they do say that incremental methods are good for the public environment because of the stable environment allowing for the long process that is incremental decision making. A good example of this is the government budget as the process of changing it is usually based on previous budgets and requires numerous small changes. The garbage can model appears to be a good fit for private organizations due to the fact it is well suited for changing environments that are looking for constant innovation. In terms of rational and bounded rational decisions, it is harder to follow the former method so most decision makers choose the later, as it is hard to be fully rational. Even so, the public sector is more likely to choose the rational method in cases of serious problems.

8. Additional Similarities

Though the similarities were few between the two types of organizations in a formal sense, there have been speculations about similarities in a general sense. These similarities expose the elements of the two sectors that are more hidden in sight yet still prevalent:

1. customer service orientation – the customer in the eyes of the private sector is someone who has agreed to pay for a product or service, and the "customer" for the public sector is the citizens as it relates to public service, despite these differences, both organizations are customer based,
2. open to change – technology and changes make it so both organizations must change in some shape or form. Openness to change is what allows improvement and new ideas,
3. opportunities for employee growth – both sectors provide opportunities to grow and take on special assignments,
4. executive support – executive staff is ready and willing to provide support and provide motivation,
5. mentoring – extra time may be spent sharing experiences and guiding employees through tasks.

9. Conclusion: Entrepreneurship in Both Organizations

While entrepreneurship is well known to the private sector, it is now beginning to make an appearance in the public word. Traditionally, the definition for private entrepreneurship consists of the creation of new organizations and wealth creation. Another more opportunity based definition states that entrepreneurship is about the discovery and exploitation of profitable opportunities. Based on this, it is easier to see how it could fit in the public world. Definitions of public sector entrepreneurship are limited and diverse. A researcher defined a public entrepreneur as "an individual who undertakes purposeful activity to initiate, maintain or aggrandize one or more public sector organizations" [Ramamurti, 1986, p. 143]. He stated that there in an increasing need for the public sector to be more dynamic and innovative even though it would be hard to start. Although risk taking decisions are not always desirable in the public sector, public organizations need to start encouraging risk taking behavior since their policy environment is never entirely predictable and stable [more on relevant subject: Kearney, Hisrich and Roche, 2009].

REFERENCES

1. Alfrod J., Greve C. (2016) *Strategy in the public and private sectors: Similarities, differences and changes,* Administrative Sciences, 7 (4), 35, *doi 10.3390/admsci7040035*, access date: 06.07.2018.

2. Anderson J.A. (2010), *Public versus Private Managers: How Public and Private Managers Differ in Leadership Behaviour*, Public Administration Review, 70 (1), pp. 131–141.

3. Bodawala, Purvi (March 16, 2017), *Similarities Between Public and Private Sectors*, www.govloop.com/community/blog/similarities-public-private-sectors/, access date: 28.06.2018.

4. Ghahrai A. (June 2, 2017), *Incremental Model. What is the Incremental Model?*, https://www.testingexcellence.com/incremental-model/, access date: 13.07.2018.

5. https://www.examrace.com/Current-Affairs/NEWS-Public-Sector-Enterprises-General-Studies-Paper-2.htm, access date: 13.07.2018.

6. Kearney C., Hisrich R.D. and Roche F. (2009), *Public and private sector entrepreneurship: similarities, differences or a combination?*, Journal of Small Business and Enterprise Development, Vol. 16, Issue: 1, pp.26–46.

7. Khan A.R., Khandaker S. (2016), *Public and Private Organizations: How Different or Similar are They*, Journal of Siberian Federal University. Humanities & Social Sciences, No. 12, http://elib.sfu-kras.ru/bitstream/handle/2311/30301/02_Khan.pdf;jsessionid=A71957C76B2BC72C798B2F44CB7A1139?sequence=1, access date: 28.06.2018.

8. Online Dictionary, *Bounded Rationality*, http://www.businessdictionary.com/definition/bounded-rationality.html, access date: 13.07.2018.

9. Ouchi W. (1977), *The Relationship Between Organizational Structure and Organizational Control*, Administrative Science Quarterly, 22 (1), pp. 95–113.

10. Osborne D., Gaebler T. (1992), *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector*, New York: Plume.

11. Perry J.L., Rainey H.G. (1988), *The Public-Private Distinction in Organization Theory: A Critique and Research Strategy,* Academy of Management Review, 13 (2), pp. 182–201.

12. Ramamurti P. (1986), *Public Entrepreneurs: Who They are and How They Operate*, California Management Review, 28 (3), pp. 142–158.

13. Rainey H.G. (1997), *Understanding and Managing Public Organizations*, San Francisco: Jossey-Bass.

14. State of Washington. Types of business structures, http://bls.dor.wa.gov/ownershipstructures.aspx, access date: 26 June 2018.

15. Surbhi S. (May 20, 2015), *Difference Between Public Sector and Private Sector*, https://keydifferences.com/difference-between-public-sector-and-private-sector.html, access date: 13.07.2018.

16. Wirick D.W. (2009), *Public-Sector Project Management: Meeting the Challenges and Achieving the Results*, John Wiles & Sons.