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Public organizations *versus* private organizations?

Organizacje publiczne *versus* organizacje prywatne?

Summary

This paper critiques the comparative literature on these organizations to assess the usefulness of the public – private distinction.

Keywords

organization, public, private

Streszczenie

W artykule dokonano przeglądu literatury przedmiotu w celu stwierdzenia zasadności dokonywania dystynkcji organizacje publiczne – organizacje prywatne.

Słowa kluczowe

organizacja, publiczny, prywatny

Introduction

Comparative research into the logic of the operation of public organizations and private organizations (enterprises) is necessary – and can simultaneously be risky. The difficulties and threats primarily arise from the complexity of the legal, economic and technological conditions constituting the grounds for understanding the content, functions and values of the two types of organization in various countries. Furthermore, the category of public organizations itself is not uniform; in other words, it includes public organizations which fundamentally differ from each other in terms of the objectives of their operation, their functions in society and the sphere of their activities. The term "private organizations" also includes very different organizations, some, being privately owned and operating for profit, pursuing public objectives or positioning their activity within the area of pursuing the public interest. The distinction between public or-

ganizations and private organizations is therefore imprecise, as it notices a blurring of the boundaries between the public and private sectors [Musolf, Seidman, 1980; Bozeman, 1988; Gideon, 2015] and an ambiguity of the term "publicness" [Moulton, 2009]. Therefore, it is easy here to present simplified arguments leading to lesser or greater misunderstandings and excessively hastily drawn conclusions. At the same time, however, it is precisely the search for differences between public and private organizations that opens up new research perspectives, which arise from the dynamic development of public management as a scientific discipline [Kożuch, 2005; Sudoł, 2016] and the mutual permeation of models of operation of public and private organizations. The result of the development of the new research perspectives is an increasing number of comparative studies published in the literature on public administration and management [Lachman, 1985; Bao, 2009; Perry, Babitsky, 1986, van der Wal, et al., 2008; Rainey, et al., 1976]. The framework of this article precludes a discussion on all the differences between public and private organizations identified in the literature on the subject. Furthermore, the identified differences are a consequence of the division or classification of the organization, including the division into public organizations and private organizations. To a certain extent, such a division is a sign of the use of a subjective convention, while also involving axiological convictions and legal regulations on the operation of public finance sector units in a given country. Therefore, I am limiting myself in the article to an indication of just four criteria for dividing organizations into public or private organizations.

1. Interest Criterion

While using the above criterion to divide organizations into private organizations and public organizations, it is emphasized that the distinctive element of public organizations is operation in the public interest [Hall, Quinn, 1983; Mitnick, 1980; Perry, Rainey, 1988, Riccucci, 2012]. Operating in the public interest means that public organizations serve – or should serve – the common good of specific communities. Public interest constitutes values, benefits and goods that are important to specific groups of people. The publicness of these values, benefits and goods is based on the fact that this is about the interest of as large a number of entities as possible (possibly the largest), while minimizing losses for as small a number (the smallest) of people as possible. Therefore, public interest is a good and benefit of entities, in particular, satisfying their needs, in that after all, the condition that such a good satisfying specific needs applies – even unequally – to the largest possible number of people who, in the given situation, may be interested, while causing losses to a relatively small number of people [Ander-

son, 2012; Szydło, 2014]. At the same time, private organizations can be mentioned (such as Facebook and Twitter), whose scale of operations and force of influence on satisfying the specific needs of individuals is so large that the question is justified of whether they are operating in the public interest. Answering such a question is problematic for two reasons. The first is related to the category of public interest itself, which is difficult to define and quantify [Perry, Rainey, 1998]. The second is related to the classic paradigm, according to which the only "sources" of satisfying the public interest are public organizations. One of the characteristic features of modern civilization transformations is the development of the information society, which is also referred to as the global community. Important changes taking place in public space are being observed in the reality of the operation of the information society, one being the emergence of new, substitute "sources" of satisfying the public interest.

2. Criterion of the Mechanism of Allocation

The use of this criterion in making a division of organizations into public or private organizations initially enabled the identification of the dichotomy of polyarchies and the market [Dahl, Lindblom, 1953]. In a polyarchy, the dominant mechanism of allocation of goods is the hierarchical structure that determines the nature of the exchange of these goods and services. It is precisely the presence of the hierarchical mechanism of the allocation of goods that means that public organizations have stable incomes, which are not subject to such significant fluctuations as the revenue of companies in economic cycles. The market is dominated by the mechanism of the interaction of the components of the market, primarily demand, supply and prices. In conditions of perfect competition, neither the buyer nor the seller has a direct influence on the price. It is precisely the presence of the market mechanism of the allocation of goods that means that private organizations look for their sources of competitive advantage, among others in the quality and/or the price of the product, flexibility in operation and innovation. However, it relatively quickly turned out that such a dichotomous division is sub-optimal. This is because it was noticed that public organizations are not always guided by public interest, particularly in the area of regulation, in which private organizations gain the ability to influence the regulatory solutions in order to maximize their own functions of the objective through processes of pressure and lobbying[1]. The dichotomous division was replaced with a continuum, one end of which constituted a polyarchy, while the other was the market [Perry, Rainey, 1988]. Between them, there are various hybrid solutions containing the two mechanisms of allocating goods and services[2]. The existence of heterarchical structures is currently being noticed in the literature. A heterarchy is a process that appears in both

the private and the public sectors expressing the joint appearance and the mutual permeation of vertical structures (the form of a pyramid) and horizontal structures (the form of a matrix). This term reflects mechanisms of public decision-making, taking into account the interdependence of private and public organizations that are involved in a wide variety of network systems, the need for higher level coordination (metagovernance) requiring not a monocentric centre of authority and a vertical (hierarchical) structure, but precisely a heterarchy [Izdebski, 2015]. A heterarchy challenges the traditional division into the autonomous orders of reality of public organizations (the state) and private organizations (the market) [Chrisidu-Budnik, 2018].

3. The Criterion of Performance of Public Services

The use of this criterion for allocating an organization into public or private organizations justifies the assertion that public organizations are responsible for the provision of public services and the supply of public goods, while the activities of the private organizations constitute the provision of private services and the supply of private goods to customers. These assertions were based on observations of the history of the operation of public organizations, primarily territorial self-government, which was forced to become involved in new areas of activity, taking on the form of public services as a result of the industrial revolution and its related urbanization. The development of the archetype of modern public services at the end of the nineteenth century doubtlessly contributed to the resolution of urban problems and the improvement of broadly-understood conditions of existence. However, the provision of these services started to be contracted relatively quickly and with various effects to private and non-governmental organizations [Feildheim, 2007; Huque, 2005; Schmitz, 2015]. The process of the demonopolization of public organizations is currently being observed, with the transfer of some tasks to private or non-governmental organizations with which contracts are signed for the performance of specific tasks . This increases the area of public services in which public organizations are required to cooperate with private organizations. The consequences of the process of contracting for public services are important. In the theoretical plane, it is not possible to speak for long about the existence of public organizations that autonomously perform public services. Services are provided with the cooperation of independent entities; public organizations and private organizations.

4. Criterion of the Degree of Formalization

While using this criterion for allocating organizations into public or private organizations, it is claimed that the former are formalized to a greater degree (quantity, level of detail, stringency of legal regulations), the result of which is bureaucratism and low flexibility in operation, which it typical of them [Bozeman, 1995; Baldwin, 1990]. However, private organizations have a relatively low level of formalization and a high degree of flexibility in operation, which is related to a greater ability to adapt to changes taking place in the environment of public organizations and in themselves. However, the use of this criterion does not enable a precise division to be made and hence a diagnosis that does not give rise to reservations regarding the differences in the functioning of public and private organizations. This is because private organizations – purely business organizations – can be mentioned, which are formalized to just as high a degree as public organizations, which do not operate in a market environment. The degree of formalization is not determined by public *versus* private provenance, but by belonging to a particular sector, which, depending on the specific country, may be dominated by the state or the market. Sectors and their enterprises are becoming increasingly global, so, in most countries, the level of regulation in individual sectors is quite similar. There are also more highly regulated sectors (formalized to a high degree), if only the banking sector, the aviation industry, which arises from the security of the whole economy and consumer protection, or the energy sector, because of their monopolies and their strategic nature for the economy. There are also less regulated sectors (formalized to a lesser degree), such as retailing or the automotive sector[3]. At the same time, the intensive development of technologies, including so-called disruptive technologies, generates the emergence of new services (such as Facebook and Uber), the mass nature and force of impact of which – usually negative – on various spheres of public life incites postulates to increase the degree of their formalization, i.e. regulatory intervention of not only the state, but also of transnational institutions.

CONCLUSION

In the comparative studies of the logic of operation of public and private organizations, a problem arises of the initial conditions, namely the system of concepts and definitions used by the researching entity. The starting point in the comparative study is the definition of the subject matter of the study i.e. the specification of what public organizations and private organizations are. The review of the literature on the subject shows that there is no precise definition of the subject matter of the studies, the result of which

is a defect in the ability to present definitive conclusions from the research conducted. The subjective choice of just four criteria for making a division into public or private organizations, which was intentionally used in the article, has proved unreliable. The lack of specification of how the researcher defines public and private organizations results in the inability to isolate the fundamental differences between them. At the same time, it is not possible to formulate a precise definition of public and private organizations in the context of the fact that the differences between the public and private sectors are becoming blurred as a result of civilizational and technological changes, as well as the resulting cultural changes. Such a state of affairs does not undermine the need to conduct comparative studies, the effectiveness of which depends on the specification of the subject matter of the study involving the appropriate choice of the subject matter of the study, i.e. the comparison of the operation of organizations providing identical services satisfying the same needs (e.g. universities, hospitals and landfills), which are present in two sectors: the public and private sectors.

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NOTES

[1] The theory referred to as the interest group theories of regulation [Noll, 1989], which try to fill the gap created by the theories of public interest, without specifying any mechanism of "transformation" by processes of pressure of private interests in policy decisions, has been isolated. The claim about the existence of two separate, unrelated mechanisms of allocation of goods was not a credible theoretical and empirical explanation. It was noticed that the source of competitive advantage of certain enterprises is the achievement of a privilege in access to political instruments and therefore the restriction of the action of market mechanisms enabling the elimination of competition and the achievement of a competitive position on the market. Therefore, the concept of capture theories is often used in the literature to emphasize the fact that the regulator – the public organization that, by assumption, is to act in the public interest – is subordinated to private interest groups [Posner, 1974].

[2] An example is territorial self-government in Poland, which has a dual nature. On the one hand, it is an administrative authority operating in the area of administrative law. On the other, it has economic tasks

assigned to the scope of its activities, which means that it operates within the sphere of civil law. The implementation of economic tasks means that the territorial self-government ceases to be just an office issuing authoritative decisions, authorizations and resolutions, as well as collecting charges and taxes [Gonet, 2011].

[3] Setting the degree of formalization is an important function of management with important implications because it is perceived to be a cost by many private parties. An example is the pharmaceutical sector in which a low degree of formalization – such as in the USA – means that prices of medications are significantly higher. On the other hand, the profitability of the companies is higher, because the prices of medications allow for an in-depth development analysis and higher spending on research and development, which, in turn, results in the emergence of new medications, as well as a technological and market advantage. The degree of formalization in the specific sector which is a manifestation of the regulatory function of the state is based on a system of axiological beliefs that dominate in the particular country or transnational institutions.