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THEORETICAL DEVELOPMENT

Integrating public and business management: a model of interaction between public and private sectors

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Abstract The article deals with theoretical and practical interactions between public administration and business management. This paper analyses normative models of public administration (New Public Management and New Governance) and business management (Corporate Social Responsibility), and raises claims pertaining to these models. Based on this analysis, an integrated model of interaction between public and private sectors consisting of five dimensions is suggested.

Keywords New public management · New governance · Corporate social responsibility · Interaction between public and private sectors

1 Introduction

Is there any interaction between public administration and business management? Since the beginning of the twentieth century, public administration, in both the theoretical and the practical sense, has absorbed ideas from organisational theories formulated in business management and the private sector. Scientific management, administrative management, the human relations school, systems theory, organisational development theory and other theories were initially tested in business organisations. They were developed on the basis of research and the results of experiments carried out in business organisations and only then adopted by the public sector. Due to the particular features of public administration systems, theoretical issues and their solutions derived from the business sector neither have been the only, nor the predominant ones in public administration. Scholars of public administration have been concerned with questions of little importance to business

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management, such as politico-administrative dichotomy, relations between central and local government, and assurance of accountability in public administration of democratic states. There is no evidence of business management appropriating any theoretical insights, ideas or solutions from public administration in the twentieth century. However, in view of the close cooperation between the public and the private sectors in the twenty-first century, it would make sense to draw upon the ideas of both public administration and business management in an attempt to understand the interaction between these two different sectors.

The article discusses several normative models—that of a flexible, effective and quality-oriented public administration, and that of a business that would care not only about short-term gains but also about the consequences of its actions for its employees and for society as a whole. In public administration literature, one of these models has been named *New Public Management*. There is also an alternative model called *New Public Governance* (Steuer 2007, p.208) or *New Public Service* (Denhardt and Denhardt 2002). These are normative models of public administration that describe what public administration should look like. The model developed in the scholarly and practical discourses of business management is known as *Corporate Social Responsibility*.

It may appear as though there is nothing in common between these models since their definitions refer to phenomena in different sectors—public administration and business. We will analyse the theoretical and practical interactions between models of public administration and business management, and propose a model reflective of the essential features of this interaction.

2 Models of public administration

"New Public Management" can be defined as the application of business management principles, methods and technologies in the public sector. New Public Management (NPM) is understood as either a normative model (theory) implemented in practice (Lane 2000), or as a concept generalising the tendencies of public sector reforms in various countries over the last three decades (Hood 1991). The main principles (or the "doctrinal components" as they are called by Christopher Hood in his article "A Public Management for All Seasons?" (Hood 1991)) of New Public Management are decentralization, contractualism, result orientation, client satisfaction, competition, economy of resources, partnerships with private and non-profit sectors in providing public services. Particular measures and methods of NPM, encompassed by the term "managerialism" (Pollitt 1993), include performance measurement, strategic planning, performance budgeting, benchmarking, client satisfaction surveys, Management by Objectives, Total Quality Management and its models—the Balanced Scorecard, ISO 9000 quality management, the EFQM Excellence Model.

New Public Management is the business sector's gift to public administration. It calls for a qualitative dynamic, in clear contrast to the traditional public administration model, typically characterized by a lack of flexibility and focused on process and procedure rather than goals and results. Among the primary aims of NPM reforms are the reduction of expenses to public administration and increased effectiveness and quality in the work of civil servants. Initially, NPM was successfully implemented in the liberal Anglo-Saxon countries, where the personal responsibility of managers and employees was always the highest. The level of business freedom in these countries was the highest as well. The Nordic countries succeeded in implementing reforms of New Public Management by following the example of Anglo-Saxon countries. Though in most of these countries reforms took place due to fashion rather than of necessity, that resulted in their public administration to become more effective and efficient. Such reforms were particularly important because otherwise the Nordic countries, where half of their national product is reallocated in the public sector, would have lagged behind in global competition. During the last 20 years, the economic achievements of the Nordic countries revealed that they can compete equally with Anglo–Saxon countries and even lead in the sphere of social equality.

With the recent financial crisis, it has become necessary to complement NPM with features of New Governance or even to formulate and implement a completely new normative model. Scholars disagree whether New Governance, or otherwise called, New Public Service (Denhardt and Denhardt 2002), can be considered an independent model. New Governance emphasizes the responsibility of civil servants and their service to the public interest, the activity and responsibility of citizens, collaboration between non-governmental organizations, businesses and the state. In the case of New Governance, the public policy implementation is not only the result of decisions and actions taken by the hierarchically organized institutions as in traditional public administration. It is also the product of various stakeholders (businesses, non-governmental organizations, the public sector) interacting with each other in "net and horizontal ties" (these links being defined as "network society" by Manuell Castells) (Castells 2000, p.108–109). In the New Governance, the process of governance itself, not only its results, (as it is in NPM) becomes relevant. Also the model emphasizes important ethical aspects—transparency, moral values, responsibility, and intolerance to corruption. Transparent collaboration between the public sector and private or non-governmental organizations makes this model "charismatically attractive". This becomes relevant in times of social distrust and civil apathy, which at the turn of the century appears not only in the old western democracies but also in the new eastern European ones with features of "oligarchic democracy".

3 Corporate social responsibility

Recent decades have witnessed new movements, theories and models developed in business management: Total Quality Management (Oakland and Porter 1995), Organizational Learning (Senge 1990), Knowledge Management (Nonaka 1994), Theory of Constrains (Goldratt 1999), and Corporate Social Responsibility. Steadily gaining in popularity, corporate social responsibility (CSR) calls for companies to take responsibility for their employees, clients, society and the environment. This changes the image of a traditional company as being responsible only to the shareholders (Jamali 2008, p. 213).

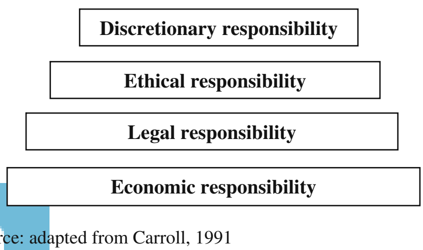
Companies that want to be called socially responsible reform their activities so that positive effects of their activities would be encouraged and negative ones discouraged. In addition to private goods, which are the direct outcome of their main activities, companies provide public goods—charity, additional insurance for their employees, investing in technologies for the protection of the environment, social infrastructure.

The phenomenon of CSR has received considerable attention in scholarly literature over the last few decades. At the end of the 1970s, Caroll distinguished four types of CSR: economic, legal, ethical and discretionary (Carroll 1979; Jamali 2008, p. 214). Economic responsibility is related to benefits for owners and shareholders, improvement of the work environment, fair pay, the internalization of new resources, the development of technologies and innovation, the introduction of new products. Legal responsibility involves companies' responsibilities to follow the laws and other social rules, such as paying taxes and avoiding corruption in their relations with governmental institutions. However, this legal responsibility is limited. Companies may formally adhere to the rule of law while at the same time violating principles of justice. Ethical responsibility obliges companies to act not only legitimately but honestly according to the moral norms and values. Ethical responsibility implies duties not regulated by laws but rather standards of expectation by society, such as avoiding social detriment and ensuring respect for people. Discretionary responsibility entails philanthropic activities freely chosen by companies—charity and support to the socially vulnerable. In the Fig. 1 all four types of CSR are presented as a pyramid. Economic and legal responsibilities are at the bottom of this pyramid, as they are nearly mandatory for all companies. Ethical and discretionary responsibilities are socially desirable but not mandatory, so they are at the top of the pyramid (Carroll 1991; Jamali 2008, p. 215).

Theoretically, CSR could be derived from humanistic organisational theory (Maslow 1954; Argyris et al. 1985), which is concerned with the needs of employees, the participation of employees in the management of companies, the trust of the employees, and Total Quality Management. For the latter the major principle is to achieve the excellence and quality in all organizational processes, products and services.

What could be the social, economical and cultural reasons for popularity of CSR? One factor that encourages companies to become socially responsible is the prevalent attitude in society, often expressed in protests by citizens and nongovernmental organisations. Companies commit to such changes to be recognised as socially responsible in reaction to public dissatisfaction with pollution, abuse, corruption and social injustice. We may presume that the religious, moral and ideological principles of owners and managers are also influential. Such actors are usually keen on implementing their personal values through company policy. It is

Fig. 1 Types of CSR. Source: adapted from Carroll 1991



also likely that companies adopt responsible practices by example from the public sector. Social and environmental issues are always of greater importance in the public sector. Such problems are usually first addressed in the public sector. Therefore it is easier for private organizations to appropriate the experience of the public sector rather than having to reinvent the bike.

Corporate Social Responsibility is based on the assumption that companies focused solely on short-term gains will suffer detriments in the work environment, the flagging of morale and motivation among employees. Over the last decade, western companies have learned the necessity and profit of investing into their employees, of caring not only for direct financial gains but also for the work environment, recreation and other social needs, such as life insurance and credit backing for their employees.

Matten and Moon (2005; Albareda et al. 2007, p. 393) have noted some differences between the European and American models of CSR. The American model usually represents explicit social responsibility whereas in the European one is implicit. American companies evaluate the benefits of adopting CSR policies and implement them on a voluntary basis. In Europe, formal and informal institutions determine the practice of CSR. Perhaps these differences between the United States and Europe reflect the differences between the economical and social models in these continents, for the American models may be defined as liberal-marginal and most of the models found in West Europe (with the exception of Great Britain and Ireland) may be defined as institutional–social-democratic or corporative-conservative (Esping-Andersen 1995). Thus explicit corporate social responsibility found in the United States is the result of a more developed private sector, whereas implicit responsibility is the result of a more developed public sector in Europe.

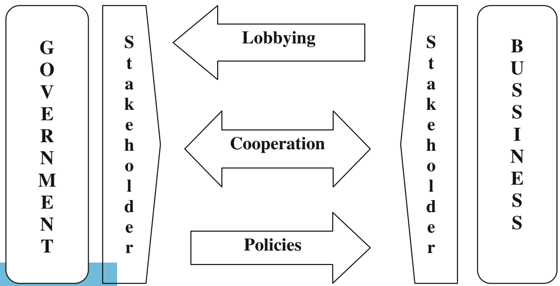
4 A normative model of interaction between the public and private sectors

A model of interaction between public and private sectors is the natural integration of existing normative models—New Public Management, New Governance and Corporate Social Responsibility. The model is elaborated deductively from the basic definitions of the roles of public and private sectors as well as the conception of interaction of those sectors. The construction of the model is based on the idea of ethical intuitionism (Audi 2004). Ethical intuitionism presupposes that moral concepts and principles could be perceived intuitively and they do not need any naturalistic (e.g. utilitarian) justification (Moore 1993). Thus from the basic moral principle of justice which is self-evident to our intuition normative statements on just behaviour of government institutions and private companies in occasions of mutual interaction are deduced.

Such a normative model fits within the governance approach in public administration precisely because this approach presupposes that the outcomes of public policy do not depend solely on the public sector but rather on the interaction between public and private sectors, and non-governmental organisations (Rhodes 1997). This model could be linked with the model of New Governance which considers the importance of ethics, responsibility and public interest in the public sector. This model also would allow us to comprehensively evaluate the interaction between public and private sectors. Its relation to New Public Management is also evident for various forms of public service delivery based on business participation, such as public procurement, public-private partnerships (PPP's) are recommended and encouraged within the perspective of New Public Management. This model raises requirements of social responsibility to both business companies and subjects of the public sector in different dimensions of the interaction between public and private sectors. Figure 2 reveals the five dimensions of interaction between public and private sectors:

1. *The influence of business on public policy.* This is one area where corporate social responsibility can manifest itself. Companies are interested in the public policy decisions. In pursuit of their interests, they try to affect the government institutions, that is, engage into lobbying practices. The normative model prescribes certain criteria for how companies could influence public policy. On the other hand, since this is a model of mutually conducive interaction between public and private sectors, there are also criteria for how the government and institutions of public administration should react to the pressures applied by private interests.
2. *Cooperation between public and private sectors*. This dimension encompasses such forms of interaction between the public and private sectors where business and government institutions are equal as partners in economic activities. Cooperation may take various forms—public procurement, concessions (or PPP's), joint stock companies. In such cases, business must fulfil requirements of social responsibility—adherence to public procedures, concern for the public interest when negotiating contracts with government institutions, observing contractual obligations, and not taking advantage of loopholes in contracts for greater profit. Corporate social responsibility, while business cooperates with government institutions, can reduce transaction costs. The government institutions may have to fulfil some normative requirements as well—e.g. diminish bureaucracy, defend public interests in negotiations, ensure equal opportunities for competition.
3. *The influence of government on business*. The public sector influences private business in two ways: by providing support and by regulating their activities. In this dimension, the public sector usually plays an active role in implementing either the business support policy or regulatory policy while the private sector—a passive one (either as a recipient of support or as a subject of regulation). In

Fig. 2 A model of interaction between the public and private sectors. Source: elaborated by the authors



Source: elaborated by the authors

the case of business support policy, social responsibility may only be demanded of the government institutions implementing the business support policy. In the case of regulatory policy, such requirements can be raised for both government institutions and business. Government institutions are expected to provide support to business only if business creates some added value beneficial to society—reducing unemployment, creating jobs, innovations, etc. When supporting or regulating business, government institutions must remain impartial: they must not support one company while ignoring others; they must ensure equal opportunities for all companies in the supported sector to receive support; and establish rules that would appropriately restrict the activities of regulated companies.

Through its policy, the government should encourage corporate social responsibility. Research on the relation of government institutions and corporate social responsibility identifies certain roles for government institutions in creating an environment conducive to corporate social responsibility: mandatory (legal acts are adopted in favour of practise of social responsibilities), facilitating (guidelines how to apply practise of social responsibilities are provided to the companies), partnering (engagement in social responsible practises together with companies), endorsing tools (publicising successful practises of corporative social responsibility) (Fox et al. 2002; Albareda et al. 2007, p. 392). The article of Albareda et al. (2007, p.398–399) mentioned such examples of policy tools aimed to the development of corporative social responsibility: raising awareness, capacity building, tax incentives, pricing and competition policies favourable to corporative social responsibility, implementation of principles of socially responsible investment, support for Public–Private Partnership (PPP) projects and business networks, incentives to implement environmental and quality standards, and etc.

It is doubtful if raising requirements of social responsibility for companies supported by the state is in any way meaningful. However, if regulated, companies should follow pertinent rules even if breaking them would be economically advantageous. For example, socially responsible companies should not violate the rules of fair competition or establish cartels even if the benefit of such an agreement were to outweigh the severity of possible sanctions by the state.

4. *Business as a government stakeholder*. Companies, just as other stakeholders of the public sector, have an interest in democratic, transparent, effective, and efficient public governance, quality services in the public sector, and the adoption and implementation of decisions beneficial to the public interest. In this model, requirements for the public sector have to be defined in a way that would fulfil the expectations of the stakeholders.
5. *Government as a business stakeholder*. Corporate social responsibility may be redefined using the so-called stakeholder theory (Freeman 1984; Jamali 2008, p.217; Heath and Norman 2004, p.249). A claim of this theory is that companies are responsible not only to their shareholders but also to other stakeholders, such as employees, suppliers, clients, and the community (Longo et al. 2005; Jamali 2008, p.217). Every stakeholder has specific expectations for the companies. For example, employees expect a safe working environment, social guarantees, satisfaction at work; suppliers expect reliability in the commercial relationships;

clients expect quality products and services, the protection of consumers rights; while the community expects that companies, in addition to monetary gain, also bring added value to the community, and that the activities of companies not cause any damage to the environment. Thus, through stakeholder theory, corporate social responsibility could be understood as the companies' reaction to the expectations of the stakeholders. In our model, the government could be defined as a certain meta-stakeholder since it takes care of the interests of all four above-mentioned stakeholders.

What are the implications of this normative model of interaction between the public and private sectors? The model makes it possible to formulate criteria for the type of interaction that should be desirable between these two sectors. It helps us define the ethical (social responsibility) requirements for both, the public sector (for actions of public administration institutions, government corporate policy) and companies. This model could be developed on the basis of five dimensions establishing qualitative and quantitative parameters. These parameters could be used to empirically evaluate particular instances of the interaction between public and private sectors (public tenders, concessions, provision of social services, business support, etc.). The formulation of criteria and assessments based on this model could be the subject of further research.

5 Conclusions

We can draw the following conclusions:

1. Public administration and business management are two closely related disciplines of social sciences. The subject of research in these disciplines was what distinguished them from each other since their inception at the end of the nineteenth century. Scholars of public administration have been interested in the issues of public sector management, and researchers of business management—in the management of business organisations. Those disciplines have been made more united by transferring methods, theoretical insights and models from business management into public administration, while the reverse has not been common.
2. New Public Management and New Governance are two normative models of public administration which generalise certain principles and values, and organisations from the public sector generally try to follow them. These models have had a real but somewhat differing impact on the organisation of public management in various countries since the end of the twentieth century.
3. Corporate social responsibility could be seen as a normative model of business management. This model defines ethical principles and values for business organisations (companies) and private sector: cooperation between public and private sectors, the influence of business on public policy, the influence of government on business, the business as a government stakeholder, and the government as a business stakeholder.
4. The proposed model of interaction between public and private sector formulated in the conjuncture of two disciplines—public administration and business management - defines and integrates ethical imperatives for just behaviour of

government and private companies in occasions of mutual interaction. The model is deduced from the principle of justice which is self-evident to human intuition. The model consists of five dimensions of interaction between public and private sector: cooperation, the influence of public sector on business, business as a stakeholder, and the government as a stakeholder. The criteria of the model could be used in assessing particular cases of interaction between the public and private sectors. The model could be further developed, establishing qualitative and quantitative parameters for each of the model's five dimensions.

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