The Public-Private Distinction in Organization Theory: A Critique and Research Strategy

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Scholars have devoted increasing attention to similarities and differences between public and private organizations. This paper critiques the comparative literature on these organizations in order to assess the usefulness of the public-private distinction in organization theory and concludes that further analysis of this distinction is valuable. Several avenues for improving research are suggested, including clarification of the categories through an extension of previous conceptions, and assessment of a proposed typology of subcategories across the public-private continuum.

One of the most important institutional design decisions facing advanced societies involves the mixture of market incentives and political authority, and the debate about these choices is one of the central issues in contemporary life (Lindblom, 1977). As a result, contrasts between the private and public sectors have received significant attention (Perry & Kraemer, 1983), as evidenced by the increasing number of comparative studies published in the public administration and management literature (Fottler, 1981; Lachman, 1985; Perry & Babitsky, 1986; Rainey, 1979; Solomon, 1986; Whorton & Worthley, 1981). Among the practical reasons for these studies is their potential relevance to understanding the proper roles of the public and private sectors, the implications of imposing public purposes on private corporations, and the transferability of management techniques, such as management by objective and merit pay systems, between business and government (Perry & Porter, 1982; Roessner, 1977; Savas, 1982).

The potential theoretical significance of the public-private distinction also has attracted attention from scholars. Meyer (1979, 1982) argued that inattention to differences between profit-oriented firms and public agencies can lead to overgeneralization in organization theory. A related contention is that organization theorists have paid too little attention to unique characteristics of public bureaucracies, whereas political scientists have applied too few of the concepts from organization theory to the study of public bureaucracy (Hood & Dunsire, 1981; Meyer, 1979; Pitt & Smith, 1981; Warwick, 1975). Fottler (1981) and Whorton and Worthley (1981) argued that distinctions between the two sectors involve important differences in organizational environments, constraints, incentives, and culture, which should be incorporated into theory.

In contrast to the public-is-different viewpoint is the thesis that distinct characteristics of public organizations are merely myths that need to be clarified or discarded through sound research.
For example, Meyer and Williams (1976) speculated that apparent differences in innovation rates between public and private organizations might disappear if organizational models were more accurate. Haas, Hall, and Johnson (1966) and Starbuck and Nystrom (1981) advanced this case in more general terms.

Complicating the debate is the variety of meanings associated with the terms public and private. We might try to purge the terms from the academic literature, but organization theorists are using them with increasing frequency, albeit in diverse, sometimes unclear ways (Hickson, Butler, Cray, Mallory, & Wilson, 1986; Kurke & Aldrich, 1983; Mintzberg, 1972, 1979). However, uncertain, shifting use of categorical concepts is a common problem in organization theory (McKelvey, 1982), and the most constructive response is to strive for systematic clarification of concepts for which theorists have shown a need.

This paper considers the usefulness of the public-private distinction in organizational research. On the basis of a critique of the comparative literature, it shows that there has been progress along diverse avenues, but that many theoretical uncertainties remain unresolved. Confusion sometimes arises due to multiple definitions and uses of the terms. Numerous empirical studies that have been undertaken suffer from lack of comparability because of diverse designs, samples, and focal variables. Also, many of these studies have been exploratory and are only loosely linked to theory. These issues create a particular need for careful strategizing about further research. Strategies for addressing the issues, clarifying the distinction, and identifying the next research steps are discussed.

**Critique of the Contemporary Literature on the Public-Private Distinction**

In assessing the current status of the public-private distinction, the key issues include the variety of possible definitions, the multiple uses to which the distinction is applied, and the state of existing organizational and managerial research related to the distinction.

**Variety of Definitions**

The public-private distinction often has been used in summative fashion (Dubin, 1978), representing a bundle of variables such as ownership, impact on societal values, and openness to external influence. Over time, social scientists typically elaborate such general concepts into a complex of subdimensions, with the original concept ultimately regarded as primarily heuristic (Dubin, 1978). In this case, complex subdimensions may be necessary. Yet despite the call for more elaborate categories (Fottler, 1981) there has been limited work on them. There is a need to select the most useful definition for organizational analysis.

Public and private have been used for centuries in relation to fundamental issues and values in society. Dictionaries (Guralnick, 1980) cite the origins of public in the Latin word for people, and define it as referring to matters pertaining to the people of a community, nation, or state. Private derives from the Latin for deprived or set apart, as in being deprived of public office or set apart from government as a personal matter. Accordingly, public organizations often have been equated with governmental bureaus (Peabody & Rourke, 1965), and private organizations have been identified as all other organizations, or as business firms. However, the blurring of the public and private sectors in most countries shows that the concepts are multidimensional, and this in turn complicates the definition.

One example of this multidimensionality was provided by Benn and Gaus (1983), who suggested that public and private vary along at least three dimensions: (a) interest, distinguishing whether benefits or losses are communal or restricted to individuals; (b) access, referring to the openness of facilities, resources, or information; and (c) agency, which refers to whether a person or an organization is acting as an individual or as an agent for the community as a whole. Although Benn and Gaus were not specifically concerned with organizational research, one or more of the dimensions they synthesized from the general literature on public and private domains underlie most of the common ap-
proaches for differentiating between public and private organizations.

**Definitions Based on the Public Interest.** One of these approaches treats the impact the organization has on the public interest as the basis for the definition. For example, Blau and Scott's (1962) cui bono typology designates a category of commonweal organizations whose prime beneficiaries are the public in general, as distinguished from business organizations whose prime beneficiaries are their owners. The public interest, however, has been notoriously difficult to define and measure. Mitnick (1980) reviewed these difficulties and presented a typology showing that there are multiple, sometimes conflicting, conceptions of the public interest. For example, there are dictatorial conceptions which contrast sharply with the sort of definition employed in Blau and Scott's typology, which is based on benefits to the general public (Mitnick, 1980). In addition, it is commonplace to observe that almost all organizations exert influence on the public interest in some way (Hall & Quinn, 1983).

**Definitions Based on Public Goods and Market Failures.** Economists cite public goods and market failures as reasons for governmental activity and therefore as reasons for the existence of public bureaucracies (Breton & Wintrobe, 1982; Downs, 1967). Yet these concepts are inadequate for clear definition of public organizations. Proponents of privatization of public services argue that many government organizations are producing nonpublic goods (Savas, 1982).

**Definitions Based on Ownership/Funding.** The most common definition of public and private distinguishes organizations according to ownership and/or funding. Property rights theorists (Alchian & Demsetz, 1972; Demsetz, 1967), for example, regard ownership as a crucial distinction between private and government organizations. For government organizations, ownership rights cannot be transferred among individuals, and risk (at least capital risk) is therefore highly diffused. In the private sector, management is treated as a productive input and is efficiently valued in the market; in the public sector, the distribution of managerial ability among organizations has little correspondence to its value as a productive input (Clarkson, 1980).

Similarly, organizational researchers often have designated public organizations as those owned by government, whether they are governmental bureaus, schools, or manufacturing firms (e.g., Chubb & Moe, 1985; Hickson et al., 1986). This can be useful, as we discuss later, but ownership does not fully capture the dimensionality of the public-private distinction. These definitions assume that public ownership more heavily subjects the organization to the institutional controls of government, as opposed to economic markets and other nongovernmental control processes. Yet on the one hand, governmental regulation and government contracts can bring heavy governmental control to bear on some private firms. On the other hand, government organizations that are funded through market sales or user charges often have concomitantly greater autonomy from governmental controls. Government corporations usually are established with the explicit purpose of granting increased managerial autonomy (Walsh, 1978).

To address these nuances, some definitions incorporate source of funding (Wamsley & Zald, 1973) or profit-nonprofit status (Fottler, 1981). Wamsley and Zald (1973) defined public organizations as those owned and funded by government and private organizations as those owned and funded through sales or private donations. Organizations that overlap (i.e., private ownership with public funding, or public ownership with private funding) represent mixed or hybrid types, such as government corporations, government contractors, or public utilities. Drawing on the widely influential work by Dahl and Lindblom (1953), which we will describe later, Wamsley and Zald assumed that degree of external control by major institutions of the political economy, such as political authorities and economic markets, is a significant distinction for organizations. Ownership and sources of funding are organizational properties reflecting these sources of control. Publicly owned and funded organi-
organizations—consisting primarily of governmental bureaus—are hypothesized to be more heavily subject to the institutional control processes of government (e.g., legislative oversight processes). Privately owned and funded organizations are asserted to be more heavily influenced by their economic markets, and they are more autonomous from government oversight. The hybrid organizations are intermediate forms. Wamsley and Zald (1973) hypothesized that these distinctions are related to important organizational properties such as goals, decision processes, and structure. Fottler's (1981) approach is roughly similar, with less explicitness concerning external institutional controls.

A number of competing approaches have been used to define the public-private distinction, and each has different implications. As they have been developed to date, each also has limited capacity to designate organizational properties for research purposes. To avoid continuing the confusion, provisions for definition must be considered in planning further research.

Multiple Uses of the Public-Private Distinction

An additional complicating factor is that the public-private distinction has been used for many purposes, including to develop theories of public organization and bureaucracy, as a moderator variable in organizational studies, and as a predictor variable in evaluation studies. This divergence of purposes has impeded cumulation of research findings. Three scholarly directions are evident in past research (see Bozeman, 1987, for a similar typology).

First, until recently, the public-private distinction has held no particular salience for scholars interested in developing a general theory of organizations. Organization theorists occasionally have used the distinction to test the scope of a theory (Haas et al., 1966; Pugh, Hickson, & Hinings, 1969) or to identify a subspecies of organizations with particular characteristics (Hickson et al., 1986; Holdaway, Newberry, Hickson, & Heron, 1975; Mintzberg, 1979; Tolbert, 1985). For most organization theorists, however, the meanings of public and private either are subsumed within other environmental variables or are not relevant for the development of a general theory (McKelvey, 1982).

Second, political scientists, public economists, and public administrationists who are concerned with developing a theory of public organizations usually begin with assumptions about the general environment of this subset of organizations (Downs, 1967; Wamsley & Zald, 1973; Warwick, 1975), taking for granted their distinctive character, or positing distinct attributes as a logical consequence of the absence of economic markets.

Third, political and social theorists who are interested in developing normative theory about the roles of the state and its citizens are concerned with the effects organizations have on the moral judgment of participants and the accountability organizations have to the greater social good (Benn & Gaus, 1983). For them, public and private represent different philosophical orientations with implied consequence for all social behavior, not simply that which occurs in organizations or a subset of organizations.

The differences among these traditions concern the organizational properties that are considered most important as focal variables and the degree of emphasis on normative versus descriptive inquiry. A challenge for future researchers is to design approaches that are conducive to integrating these traditions.

Organizational Research and Theory Development

A considerable amount of literature addresses the similarities and differences between public and private organizations. Table 1 summarizes the types of research, the theories that were used, and the conclusions that were drawn.

Reviews of this literature (Fottler, 1981; Meyer, 1982; Rainey, Backoff, & Levine, 1976) show concurrence on a number of the distinctions: The information and incentives of the economic market are absent for public organizations, which are concomitantly subject to much greater influ-
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<td><strong>Positive and Deductive Theories of Public Bureaucracy and Related Social Control Processes</strong></td>
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<td>Banfield (1975)</td>
<td>Propositions about corruption in &quot;typical&quot; government agencies and typical business firms.</td>
<td>Government agencies have (a) greater fragmentation of authority and weaker requirements to avoid &quot;selling&quot; outputs below cost of production; (b) greater vagueness, multiplicity, and conflict among objectives and products; (c) stronger requirements to adhere to external laws and administrative procedures; and (d) less reliance on pecuniary incentives. Therefore, they spend more on reducing corruption than is gained in return, and are less able to reduce corruption through strong central control.</td>
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<td>Dahl &amp; Lindblom (1953)</td>
<td>Theoretical analysis of societal decision and allocation mechanisms.</td>
<td>&quot;Agencies&quot; under governmental control have more intangible goals, less incentive for cost reduction, more dysfunctions of bureaucracy (red tape, rigidity) than do &quot;enterprises&quot; controlled by markets.</td>
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<td>Downs (1967)</td>
<td>Conceptual/theoretical model of bureaucracy.</td>
<td>Due to the absence of the economic market, public bureaucracies tend toward more elaborate hierarchies. The political environment is more important and influences internal decisions. Agencies become rigid over time.</td>
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<td>Wamsley &amp; Zald (1973)</td>
<td>Conceptual/theoretical analysis of public organizations.</td>
<td>Public ownership and funding subjects public organizations to unique political and economic environments and unique public expectations. For example, political sentiment toward the agency becomes more important.</td>
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<td><strong>Typologies and Taxonomies of Organizations Which Include a Public-Private Distinction</strong></td>
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<td>Haas, Hall, &amp; Johnson (1966)</td>
<td>Empirically derived taxonomy.</td>
<td>Constructed nine taxonomic categories. Public and private organizations were mixed among categories, so the study did not support a public-private distinction.</td>
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<td>Mintzberg (1979)</td>
<td>Typology of organization structure based on review of research.</td>
<td>&quot;Public machine bureaucracies&quot; are posited as one subcategory within &quot;machine bureaucracies&quot; because public agencies tend toward highly bureaucratized form due to external constraints.</td>
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<td>Pugh, Hickson, &amp; Hinings (1969)</td>
<td>Empirical taxonomy of structural dimensions of 52 organizations in Great Britain, eight of which were government organizations.</td>
<td>Most of the public organizations were unexpectedly low on measures of internal structure, but high on concentration of authority at the top, with personnel procedures highly centralized or externally controlled. Noting that the government organizations were not typical government agencies but local &quot;workflow&quot; organizations, such as a water department, the researchers suggested that size and technological development determine internal structure,</td>
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Table 1—Continued
Summary of Selected Research on the Public-Private Distinction

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<td>whereas concentration of authority is determined by government or other external auspices.</td>
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<td>Anecdotal Observations by Practitioners With Experience in the Public and Private Sectors</td>
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<td>Blumenthal (1983)</td>
<td>Experienced practitioner’s views on similarities and differences between public and business management.</td>
<td>Federal executives have less control over their organizations than business executives. Federal organizations are more conglomerated and diverse. Congress and the press are more influential. The decision process is more cumbersome.</td>
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<td>Empirical Research on Public Bureaucracy and Public Administrators</td>
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<td>Hood &amp; Dunsire (1981)</td>
<td>Empirical taxonomy of British central government departments using archival data.</td>
<td>Arguing that public bureaucracies are a distinct set of organizations, the researchers developed a three-category empirical taxonomy of British central government departments.</td>
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<td>Kaufman (1981)</td>
<td>Descriptive study of six federal bureau chiefs.</td>
<td>Much of bureau chiefs’ work is generic management (motivating, communicating, decision making), but the political environment and congressional relations are highly significant.</td>
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<td>Meyer (1979)</td>
<td>Empirical study of structural change using a national sample of state and local finance agencies.</td>
<td>Public bureaucracies are particularly open to external pressures for changes. Their hierarchies are stable, but there is frequent change in subunit composition. Their personnel systems are increasingly formalized over time due to federal emphasis on civil service rules. External pressures are mediated by political processes. Public bureaucracies have no alternative to Weberian hierarchy, and they are evaluated in terms of conformity with higher authority.</td>
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<td>Warwick (1975)</td>
<td>Case study of U.S. Department of State.</td>
<td>Public organizations are heavily influenced by external political and institutional factors. They are prone to elaborate hierarchies and rules. Their internal structures are often imposed externally. They are resistant to change and to delegation of authority. Employees are security-conscious, especially in relation to potential political controversy.</td>
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<td>Empirical Research Comparing Samples of Public and Private Organizations and Managers</td>
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<td>Boyatzis (1982)</td>
<td>Study of managerial competencies in four federal agencies and twelve Fortune 500 firms.</td>
<td>Private managers were higher on “goal and action” competencies. This is attributed to absence of clear performance measures, such as profits and sales, in the public sector. Private managers were also higher on leadership competencies of “conceptualization” and “use of oral presentations.” This is attributed to more strategic decision making in the private sector and greater openness and standard procedures in the public sector.</td>
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<td>Buchanan (1974, 1975)</td>
<td>Compared questionnaire responses from managers in four “typical” federal agencies and four large business firms.</td>
<td>Public managers were lower on job satisfaction, job involvement, organizational commitment, and perceived organizational constraints and rules. Findings reflected weaker hierarchical authority, greater diversity of personnel, and weaker commitment expectations due to civil service rules, political interventions, diffuse goals, and complex bureaucratic procedures.</td>
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<td>Kilpatrick, Cummings, &amp; Jennings (1964)</td>
<td>Survey of work-related values and attitudes at all levels in federal agencies and in business from 22 metropolitan sampling units. Includes sample of 273 federal executives and 287 business executives.</td>
<td>Federal executives were comparable to business executives on job satisfaction, but federal scientists, engineers, and college graduates were lower than their private counterparts. Public sector respondents in all these groups were more favorably disposed to work in the other sector than were private respondents. There were conflicts between the public image of the federal service and the occupational values of highly educated, higher occupational status groups in the U.S.</td>
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<td>Lau, Pavett, &amp; Newman (1980)</td>
<td>Compared U.S. Navy civilian executives to executives from a number of service and manufacturing firms.</td>
<td>Found general similarities in the work of the two types of managers, although the public managers devoted more time to “fire drills” and crisis management.</td>
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<td>Paine, Carroll, &amp; Leete (1966)</td>
<td>Compared managers in one federal agency to managers in industry who were comparable in age and level.</td>
<td>Federal managers were lower on all 13 items in Porter need satisfaction scale, with greatest difference on job security, autonomy, and self-actualization.</td>
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<td>Rainey (1979, 1983)</td>
<td>Compared questionnaire responses from middle managers in four state agencies and a defense installation to middle managers in four private firms.</td>
<td>Public managers were lower on satisfaction with co-workers and promotion, relations of extrinsic rewards (pay, promotion, firing) to performance, perceived value of monetary incentives, and perceived organizational formalization (rules, channels). There were no differences on role conflict and ambiguity, task variability and analyzability, goal clarity, and self-reported motivation and job involvement.</td>
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<td>Rhinehart, Barrell, Dewolfe, Griffin, &amp; Spaner (1969)</td>
<td>Compared supervisory personnel in one federal agency to managers in a large sample from industry, with management level as a control variable.</td>
<td>Federal managers were lower on all 13 items on Porter need satisfaction scale, especially on social and self-actualization need satisfaction. Among higher level managers, federal managers were lower on autonomy and self-actualization. Results confirmed Paine et al. (1966).</td>
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<td>Smith &amp; Nock (1980)</td>
<td>Comparison of results from 1976 General Social Survey of 1,499 adults by National Opinion Research Center and 1973 Quality of Employment Survey of 1,496 employed persons by Survey Research Center, University of Michigan.</td>
<td>Blue-collar, public-sector workers were more satisfied with most aspects of work than blue-collar, private-sector workers. White-collar, public-sector workers were much less satisfied with co-workers, supervision, and intrinsic aspects of work (interest, etc.).</td>
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<td><strong>Empirical Research Comparing Samples of Public and Private Organizations in Similar Functional Categories</strong></td>
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<td>Chubb &amp; Moe (1985)</td>
<td>Mail questionnaire survey of 11,000 principals and teachers in 450 public and private (Catholic, other private, and elite private) high schools.</td>
<td>Public school members perceived stronger influence by outside authorities, weaker parental involvement, more managerial and less professional orientations of principals, less emphasis on academic excellence, less clarity of goals and disciplinary policy, more formal constraints on personnel policy, weaker faculty influence on curriculum.</td>
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<td>Savas (1982)</td>
<td>Review of numerous studies of private vs. public provision of services.</td>
<td>Reviews findings of greater cost-efficiency of private delivery systems for solid waste collection, fire protection, transportation, health care, custodial services, landscaping, data processing, and legal aid. Comparisons of hospitals and utilities have been mixed and inconclusive.</td>
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<td>Solomon (1986)</td>
<td>Compared 120 Israeli public-sector top managers to 120 Israeli private-sector top managers on questionnaire responses. Both samples were evenly divided between manufacturing and service organizations, and they represented a broad range of Israeli work organizations.</td>
<td>Private-sector managers were much higher on perception that rewards were contingent on performance, that policies promoting efficiency were more prevalent in their organizations, and on personal satisfaction with various dimensions of their work. On the latter two dimensions, differences between public and private service organizations were particularly strong.</td>
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<td>Spann (1977)</td>
<td>Reviewed empirical studies of public vs. private provision of five types of services.</td>
<td>Private producers can provide airline, garbage collection, fire protection, and electric utility services at the same or lower costs than can public producers. Results for hospitals indicate little cost or quality difference.</td>
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<td><strong>Organizational Research in Which the Public-Private Distinction Serves as a Significant Moderator</strong></td>
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<td>Hickson, Butler, Cray, Mallory, &amp; Wilson (1986)</td>
<td>Intensive longitudinal study of strategic decision processes in 30 public and private service and manufacturing organizations.</td>
<td>For both service and manufacturing organizations, public ownership increases tendency toward a &quot;vortex-sporadic&quot; mode of decision processes and the tendency toward higher levels of formal and informal interaction in strategic decisions. Both public/private ownership and purpose (service/manufacturing) showed important relations to decision processes.</td>
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<td>Holdaway, Newberry, Hickson, &amp; Heron (1975)</td>
<td>Analyzed structures of 16 public and 4 private colleges in Canada, using procedures similar to Aston studies (Pugh et al., 1969).</td>
<td>Higher degrees of public control were related to higher levels of bureaucratic control (formalization, standardization of personnel procedures, centralization). The public colleges were higher than the private on degree of public control.</td>
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<td>Kurke &amp; Aldrich, (1983)</td>
<td>Replication of Mintzberg (1972) study, observing four executives, including a school and a hospital executive representing the public and &quot;quasi-public&quot; sectors.</td>
<td>Mintzberg’s findings were replicated and supported. Public managers spent much more time in contact with directors and outside groups. The school administrator spent much more time in formal activity (e.g., formal meetings).</td>
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<td>Mintzberg (1972)</td>
<td>Observational study of five executives from a variety of organizations, including a hospital director and superintendent of a large school system.</td>
<td>There were marked similarities in work roles of the five executives. The managers in public and “quasi-public” organizations—the school administrator and hospital administrator, respectively—spent more time in contact with directors and with external interest groups. The contacts were more structured and formalized (e.g., formal meetings), and the public administrators received more “status” requests. For public colleges and universities, higher levels of private funding were related to existence of more administrative offices for private-funding relations. For private colleges and universities, more public funding was related to more offices for public-funding relations. The results support a combined institutionalization and resource dependence interpretation.</td>
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<td>Tolbert (1985)</td>
<td>Analysis of data on 167 public and 114 private colleges and universities from Higher Education General Information Survey.</td>
<td>Some fairly rich theoretical frameworks which guided these propositions have not yet been well integrated into the empirical research on the topic. Dahl and Lindblom (1953) offered one of the earliest theoretical statements on the relation between organizations and the political economy. They observed that every society must choose between variants of two fundamental decision systems, which we will refer to as modes of social control. Activities can be directed through a politically constituted hierarchy, which they termed a polyarchy in advanced industrial democracies because of its pluralistic power structure, or through relatively decentralized, autonomous organizational forms controlled primarily by the price system in economic markets. They called the organizational forms at these two extremes agencies and enterprises, respectively. They posited that agencies have more intangible goals, less incentive for cost reduction, and more dysfunctions of bureaucracy. They also analyzed the complex admixtures of markets and polyarchies which exist between the two extremes. Their analysis was a conceptual underpinning for Wamsley and Zald’s (1973) definition cited earlier. There also are frameworks developed by both public sector economists (Breton &amp; Wintrobe, 1982; Niskanen, 1971; Tullock, 1965) and the property rights theorists cited earlier. Of these, Downs (1967) remains the most widely cited among organization theorists because he devoted more attention to internal behavior and structure (see Table 1), whereas others, such as Niskanen, concentrated on budgetary behaviors or other less comprehensive dimensions. A divergence between organization theorists and these economic approaches to bureaucracy has been widely noted (Barney &amp; Ouchi, 1986; Meyer, 1979; Moe, 1984; Rainey, 1984). Economists have tended to...</td>
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posit bureaucratic behaviors as logical consequences of the absence of economic markets for organizational outputs, using limited empirical testing when compared to the intensive work on organizational structure and behavior of organization theorists. As a result, economic analyses often end with propositions similar to those of Dahl and Lindblom (1953) (see Table 1), which organizational taxonomists have sometimes regarded as unconfirmed assertions (Haas et al., 1966; McKelvey, 1982; Pugh et al., 1969). More recent analyses, such as transaction cost theory (Williamson, 1975) and agency theory (Mitnick, 1980), have not yet been sufficiently drawn into the design of empirical research on the public-private continuum (Barney & Ouchi, 1986).

In addition, there is a huge amount of political science literature about the role public bureaucracies play in the political system (Rourke, 1984; Seidman & Gilmour, 1986). However, this research, consisting mainly of rich case and anecdotal descriptions, has not yet been developed into explicit models to guide empirical research on organizational dimensions.

Theorists who have developed organizational typologies have dealt with the public-private distinction in various ways. In some cases, they have rejected the distinction (Haas et al., 1966). Others have found it useful, but have defined a richer set of organizational forms. Examples of this research, including Blau and Scott (1962), Pugh et al. (1969), and Mintzberg (1979), are summarized in Table 1. McKelvey (1982), who proposed an elaborate taxonomy of organizations, placed public bureaucracies in one category and most of the "producer" (industrial) organizations in another. He also included categories containing organizations such as hospitals and universities, which exist in both sectors. He argued that although the public-private distinction is inadequate for a general taxonomy, it may be helpful in constructing special taxonomies that distinguish organizations within a particular category. Overall, then, taxonomic research often follows the pattern of distinguishing governmental bureaucracies from private business manufacturing and production firms, and proposes various schemes for classifying the complex set of intermediate or overlapping forms.

Empirical research has followed a similar pattern. As is illustrated in Table 1, scholars have studied individual government agencies or groups of government agencies and have drawn conclusions that compare the agencies to private firms. Others have compared judgmental or opportunity samples from the core categories of public agencies and private firms. Still others have compared analogous organizational forms in the two sectors; the intent is to compare organizations with similar tasks as a way of controlling for task dimensions and as a way of testing policy-relevant questions about whether private organizations are better at specific tasks such as refuse collection. A review of Table 1 shows an increasing accumulation of findings on the relationship of the public-private dimension to a number of dependent variables: work-related attitudes among employees (e.g., Buchanan, 1974; Paine, Carroll, & Leete, 1966; Rainey, 1983; Rhinehart, Barrel, Dewolfe, Griffin, & Spanner, 1969; Smith & Nock, 1980; Solomon, 1986), managerial roles (Boyatzis, 1982; Kurke & Aldrich, 1983; Lau, Pavett, & Newman, 1980; Mintzberg, 1972), structural variations (Holdaway et al., 1975; Meyer, 1979; Pugh et al., 1969; Rainey, 1983; Tolbert, 1985; Tolbert & Zucker, 1983), perceptions of external control (Abney & Lauth, 1986; Hickson et al., 1986; Lachman, 1985), external control processes (Meyer, 1979; Tolbert, 1985; Tolbert & Zucker, 1983), strategic decision processes (Hickson et al., 1986), and performance norms and outcomes (Chubb & Moe, 1985; Perry & Babitsky, 1986; Savas, 1982; Spann, 1977).

Yet there are limitations to the designs used in these studies. Case studies of single agencies (Warwick, 1975) or single types of agency (Meyer, 1979) obviously leave uncertainties about generalizability. Comparisons of judgmental samples (e.g., Boyatzis, 1982; Buchanan, 1974, 1975; Rainey, 1979, 1983) leave questions about the adequate representation of the two categories and about the applicability of these categories to
mixed or intermediate types. Comparisons of analogous forms (Hickson et al., 1986; Holdaway et al., 1975; Pugh et al., 1969; Savas, 1982; Spann, 1977; Tolbert, 1985) provide some of the more convincing findings by showing sectoral differences even within analogous task or functional categories, where one might, a priori, expect the least divergence. Yet these findings do not resolve the generalization issue. The points of similarity in task may be unrepresentative of the two sectors. Differences between public and private universities, for example, cannot readily be regarded as evidence of differences between public agencies and private firms.

The most important limitation of existing empirical research is that usually it has been related imprecisely to theoretical frameworks of the sort described earlier in this section. The tendency has been to represent the public-private distinction as a categorical variable of two, or sometimes several, categories. Usually, there is an almost cursory discussion of the rationale for the comparisons, which often cites Downs (1967) or some other widely referenced treatment of public bureaucracy and explains that the point is to see whether public and private organizations differ in the ways frequently asserted in that literature (e.g., that public organizations are subject to multiple external authorities, have more internal bureaucracy, and have more constraints on personnel decisions, etc.). There has been little elaboration on and testing of the theoretical formulations to analyze how external political and economic institutions actually exercise these influences.

To date, there have been frequent observations about differences among core categories of public agencies and private firms and the differences between organizations with analogous functions in the two sectors. These observations often have been unsystematic, although sometimes they have drawn on theoretical formulations from political economists. Meanwhile, the organizational implications of the available theory have remained underdeveloped. There also has been a steadily increasing number of empirical indications of differences between public agencies and private firms and between public and private versions of the same type of organization. These studies have been very diverse in design and focal variables, and often they have been exploratory and not clearly related to available theory. The many taxonomies, survey comparisons, and other approaches have not been cumulated into an acceptable explanation of how and why public organizations differ from private ones.

**Strategies for Future Research**

Inquiry into the public-private distinction merits continuation, but future research must overcome the limitations we have identified. An approach must be developed that can both designate organizations with reasonable clarity and involve research on broader normative and institutional issues. It must be conducive to research within the relatively pure public and private categories (i.e., variations between government bureaus and business firms) and across the public-private continuum (e.g., government corporations, government contractors, and heavily regulated firms). Therefore, researchers must be more attentive to key subdimensions implied by the simple public-private dichotomy used in most research and positive theory to date, and they must improve theoretical and empirical analyses of why public and private organizations vary, if they do.

**Extending Wamsley and Zald’s Definition**

These needs can best be satisfied by elaborating the conception of the public-private distinction to include the institutional mechanisms for societal control of political and economic activity. Wamsley and Zald’s approach is useful as a beginning because ownership and funding are relatively clear organizational properties, for which there are meaningful theoretical rationales. Yet ownership and funding can take multiple forms and can have complicated interrelations. There also is a complex dimensionality to
the actual external structures and processes of control that are related to ownership and funding, including variations in political institutions and market structures. Progress in theory development and empirical research now depends on our ability to further analyze these variations in environmental controls.

This can be done by drawing on the social control literature. As noted earlier, Wamsley and Zald drew a number of points from Dahl and Lindblom’s (see Table 1) contribution to this literature: the distinction between markets and polyarchy, the observation that these two methods of social control are overlapping and mixed in a continuum between the two extreme forms, and the assertion that agencies and enterprises represent two organizational forms at the extremes of the continuum. Lindblom (1977) also emphasized that the distinction between polyarchies and markets is based on a more fundamental distinction between social control by governmental authority, on one hand, and by market exchange, on the other. Governmental authority involves social control through rules and directives issued by government, whereas market organizations must induce individuals to engage in market exchanges with them (hence his reference to consumer sovereignty as a characteristic of market systems). As his use of the term polyarchy implies, Lindblom saw the exercise of authority in Western democracies as involving a pluralistic political process in which multiple governmental authorities, interest groups, and other political actors contest the nature and application of the rules. These entities may engage in exchange, but the exchanges involve intentional efforts to influence authoritative rulings (legislation, administrative rules and policy decisions, etc.) through mobilization of political support and legal authority, rather than economic exchanges of goods and services between relatively unorganized customers and suppliers.

Zald (1978) applied Dahl and Lindblom’s approach more directly to the analysis of external social control of organizations. He defined the structural contexts which modern societies establish for control of organizations as “the organization of those parts of the social environment having direct control or ability to sanction target elements” (p. 95), and distinguished three ideal-typical forms of structural context according to “the degree of dispersion of environmental resources needed by the target elements” (p. 96). In a market context, organizations must react to the choices of numerous buyers and sellers who have no organized intent to control the organization. In a hierarchical context, a central government directs the allocation of resources and enforces rules and procedures concerning production of goods and services. In a polyarchic context, there is the bargaining and persuasion of groups of external organizations and individuals, who have some degree of control of the target organization.

Our approach adheres to Lindblom’s two categories rather than Zald’s three categories. Zald stated that his added hierarchical category is applicable to socialist and communist countries, and we emphasize industrialized democracies in our analysis. We also accept Moore’s (1981) argument that there are significant differences between the governmental hierarchies found in communist countries and those in countries that allow private property rights.

Yet as with both Lindblom’s and Zald’s approaches, we treat the market-polyarchy distinction as a complex continuum of structures and processes for social control. We propose that this additional dimension be added to the public-private distinction to indicate the extent to which external social control of the organization is exercised through polyarchy as opposed to market exchange. In terms common among organization theorists, we see this dimension as a complex attribute of an organization’s task environment that governs establishment of an organization’s domain (Thompson, 1967) and domain consensus. Therefore, the mode of social control dimension refers to the extent to which major components of an organization’s domain are subject to relatively greater external controls by polyarchy or markets.
Important components of the organization’s domain that are influenced by market or polyarchic controls include the organization’s (a) rules for establishment and termination; (b) mission and goals; (c) goods and services; (d) geographical sphere of operations; (e) clients; (f) major technologies and operating procedures (including personnel systems and top executive appointments, purchasing/procurement systems, and budgeting/financial systems); (g) charges or prices for outputs and levels of those charges (see Bozeman, 1987, for a similar approach). Many of these domain elements are precisely those on which hybrid forms such as public corporations are granted increased autonomy even as they are made more subject to markets for their outputs (Seidman & Gilmour, 1986; Walsh, 1978). Provisions concerning authority over these elements often are explicit in enacting legislation, charters, or operating contracts for organizations.

As noted earlier, the actual discharge of governmental authority in Western democracies involves a pluralistic political process (Lindblom, 1977). Public organizations will be subject to a greater number of different governmental authorities with formal authority over a greater number of domain elements than will private organizations. They will be subject to more influence attempts by nongovernmental political actors and organized groups whose relatively explicit intent is to influence decisions about domain elements through persuasion or pressure rather than economic exchange. In fact, these pressures often will be indirectly exerted via political officials (e.g., groups lobbying city commissioners to intervene in a decision by a bureau).

At the market extreme of this social control continuum, organizations will have more autonomy from formal governmental authority. Their external “control” will result more from economic exchanges with buyers and sellers who are either relatively disorganized or not intentionally seeking to persuade the organization to make particular decisions concerning domain elements (Zald, 1978). Obviously this is a relative matter, and private market-based organizations will be subject to governmental authority (a framework of laws, chartering provisions, regulations) and external pressures that could be characterized as political (e.g., from industry associations, consumer groups, professional associations). Yet these influences are asserted to be less important in shaping major domain decisions than they are for public organizations.

In order to be clear about our conceptual approach, we treat these variations as matters of definition; nonetheless, they require validation through empirical research. In fact, the aim is to stimulate just that sort of research, which moves beyond the simple public-private dichotomies to the analysis of the variations in external social control that they crudely imply. There are a number of additional issues about the empirical application of this approach, but they are no less intractable than other issues involving the analysis of external control of organizations. Researchers already have begun to analyze variations in external governmental controls, and our approach simply proposes a more detailed and explicit procedure that is less reliant on internal managerial perceptions than other approaches to date (Abney & Lauth, 1986; Chubb & Moe, 1985; Hickson et al., 1986).

Analyzing the Variables Associated With the Public-Private Dimension

Our critique has demonstrated that empirical research to date, through the use of simple public-private distinctions, has paid insufficient attention to variations in political and economic environments. There is an increasing recognition that there has been a divergence between organization theory and both political science and economics, and there is much activity aimed at addressing that gap (Rainey, 1984). Concerning external political environments, our review has shown that there is a great deal of relevant material. However, not many studies have included any extensive effort to conceive and measure political dimensions of the external environments of organizations and relate them to organizational properties (Bozeman, 1987; Hood
& Dunsire, 1981; Rainey, 1984; Ripley & Franklin, 1975). Also, a growing body of work on the instrumentalities of government action must be drawn into the analysis of governmental influence on organizations (Hood, 1983; McGregor, 1981; Mitnick, 1980; Salamon, 1980).

As for economic and market factors, there is an immense body of relevant research. Yet, historically, there has been both a divergence between economics and organization theory and a lack of empirical research in organization economics (Barney & Ouchi, 1986). This complicates an already complex issue of how much can be extrapolated from economic research on relevant topics such as monopoly, market structure, competition, corporate governance, governmental regulation, and nonprofit status for research on the public-private distinction. However, frequent use is being made of transaction cost theory and agency theory, which are particularly relevant because they emphasize differences in levels of hierarchy and authority and monitoring across levels. There has been a tendency to use such approaches for analysis of business firms but not for the public sector (Barney & Ouchi, 1986). Proponents of the approaches cite the need for further applications to the public sector (Moe, 1984). Yet these applications are developing, as economists and political scientists apply agency concepts (Goldberg, 1976; Mitnick 1980), monitoring among governmental levels (Chubb, 1985), governmental auditing (Marks & Raman, 1986), differences among types of governmental hierarchy (Moore, 1981), and others of the relevant topics mentioned above (Fama & Jensen, 1986). Like other multidimensional approaches such as that of Bozeman (1987), these are of particular interest because they advance one of the central questions in the entire discussion—the interrelationship between "political" and "economic" factors.

One immediate implication of these examples is that integrative reviews of such material will be particularly useful in further developing multidimensional approaches to the public-private distinction, such as the one we have proposed.

The current ferment in these areas of research actually creates an exciting context for the elaboration of the public-private distinction.

**Specifying Subtypes Along the Public-Private Continuum**

One way in which this approach can help is by providing a varied, but reasonably parsimonious, set of categories to guide selection of organizations for future studies. If studies are to proceed deductively by testing theoretically derived differences, there is a need for some a priori conception of major categories to be represented in the sample. If a study is to proceed inductively, measuring many organizational properties and then sorting the organizations into categories, the adequacy of the result will still depend on whether the original sample contained sufficient variety. Most previous taxonomic studies have underrepresented the public category (Pugh et al., 1969).

Table 2 presents a typology created by cross-classifying the three dimensions described previously: ownership, funding, and mode of social control. These categories provide a succinct means of designating a series of points ranging across a general dimension of governmental versus private control, from bureaus at one extreme to private enterprises at the other. In addition to variations in public and private ownership and funding, there will be variations in the nature of social control that accompany such arrangements.

Obviously the three dimensions are not strictly dichotomous. We have explained that the polyarchy-market distinction is actually a continuum, but at present there is not much theoretical or empirical confirmation of how polyarchies and markets blend in the case of the hybrid forms. We assert the predominance of one or the other to emphasize that various combinations of ownership and funding can be associated with different mixtures of the two forms of social control. We also base these assertions on the existing literature, cited in Table 2, which contains case descriptions and observations about such cate-
Table 2

Typology of Organizations Created by Cross-Classifying Ownership, Funding, and Mode of Social Control

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Funding</th>
<th>Mode of Social Control</th>
<th>Representative Studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureau (e.g., Bureau of Labor Statistics)</td>
<td>public</td>
<td>public</td>
<td>polyarchy</td>
</tr>
<tr>
<td>Government Corporation (e.g., Pension Benefit Guaranty Corporation)</td>
<td>public</td>
<td>private</td>
<td>polyarchy</td>
</tr>
<tr>
<td>Government Sponsored Enterprise (e.g., Corporation for Public Broadcasting)</td>
<td>private</td>
<td>public</td>
<td>polyarchy</td>
</tr>
<tr>
<td>Regulated Enterprise (e.g., Private Electric Utilities)</td>
<td>private</td>
<td>private</td>
<td>polyarchy</td>
</tr>
<tr>
<td>Governmental Enterprise</td>
<td>public</td>
<td>public</td>
<td>market</td>
</tr>
<tr>
<td>State-Owned Enterprise (e.g., Airbus)</td>
<td>public</td>
<td>private</td>
<td>market</td>
</tr>
<tr>
<td>Government Contractor (e.g., Grumman)</td>
<td>private</td>
<td>public</td>
<td>market</td>
</tr>
<tr>
<td>Private Enterprise (e.g., IBM)</td>
<td>private</td>
<td>private</td>
<td>market</td>
</tr>
</tbody>
</table>

For example, the Postal Service, a government corporation, receives its funding through user charges and is expected to operate as a financially self-sustaining organization. Yet it is subject to extensive political oversight and intervention.

Similarly, the dichotomization of ownership and funding is not readily applicable to one common hybrid form, the mixed ownership enterprise. Yet the typology actually forces the question of what is meant by mixed ownership. If government is the majority stockholder, such an organization may be equivalent to a state-owned enterprise. If government is a minority stockholder, the organization may be equivalent to a heavily regulated enterprise. In addition, the category we have called governmental enterprise appears to be a null category, but it is interesting to consider whether it exists or could exist. (A public transit system might be fully funded by government but strictly on the basis of client use.) This category illustrates the theoretical limits to the blending of the three dimensions.

Further explication of the typology is precluded here. However, the categories we have chosen are supported by several sources, coincide with previous research, and employ nomenclature common in that literature. Thus, the eight-category typology has rudimentary construct validity. Nevertheless, it is intended as a formative model which can guide additional development of existing typologies, such as that of Wamsley and Zald.

As noted, such a typology can be employed in a sampling design for a test of deductive hypotheses about differences in organizations subject to differing degrees of governmental and private controls, with the results confirming or disconfirming the categories. There is no widespread consensus on the categories for the hybrid...
organizations, and the categories (Table 2) are sometimes used interchangeably (Walsh, 1978). One important reason for proposing this typology is to encourage more systematic research on the dimensions along which the hybrid forms vary, research that will clarify such categories. The typology also can serve as a guide for constructing an inductive empirical taxonomy of the organizational implications of the public-private distinction, following the guidelines of Pinder and Moore (1979) and McKelvey (1982). A multivariate empirical taxonomy would be useful for testing the validity of a priori typologies that employ the public-private distinction, although of course empirical validation may not be appropriate for certain a priori typologies developed for heuristic purposes. The resultant clusters of organizations would form the basis for research using descriptive and normative theories appropriate to each organizational cluster (Pinder & Moore, 1979). Research on these clusters would be useful for developing a middle-range theory about organizations and for checking any overgeneralization attributable to any single class of organizations (Meyer, 1982).

The Typology and Other Independent Variables

The typology can be cross-matrixed with other major independent variables. Hickson et al. (1986) broke down their sample of organizations by both public vs. private and manufacturing vs. service distinctions and showed that each influenced the decision process. Solomon (1986) used a similar approach. The typology can be used for further elaborations of such a design.

For example, a recurrent complication in assessing the implications of the public-private continuum is due to organizational functions or tasks. Clearly public and private versions of schools, universities, utilities, and hospitals have more in common with their functional counterpart in the other sector than with other functional types in the same sector. This is one reason why the empirical studies often use one of two approaches. Some researchers have compared public and private organizations within a particular functional category, such as universities. We call these within-function comparisons. Other researchers have made across-function comparisons of groups of organizations that more broadly represent the two sectors.

Both types of designs have value. Conclusions from within-function studies have shown consistencies with conclusions from across-function studies (e.g., Chubb & Moe, 1985). This underscores the value of moving toward more comprehensive research projects. The proposed typology could be cross-matrixed with a dimension made up of a variety of functional categories, such as types of private enterprises, government bureaus, universities, and utilities. Obviously, the categorical nomenclature in the proposed typology may not apply to all functional categories. (We usually do not speak of hospitals or universities as governmental enterprises or government contractors.) However, the typology can still be applied, even if the nomenclature is not used.

The Array of Dependent Variables: Focusing Future Research

The diversity in focal dependent variables in the existing research, which we have noted, is a reasonable result of researchers’ varied interests in the many potential differences which have been asserted in the literature. Compilations such as Table 1 can help researchers to interrelate their efforts with previous work and to focus on promising areas. Earlier we noted substantive areas in which evidence about the public-private distinction has accumulated. Regardless of their frequency in previous empirical studies, the frequent references by practitioners and positive theorists to organizational creation and termination, goal setting, and core technology suggests that these issues are of particular strategic importance for both policy makers and theorists and, therefore, are important foci for public-private comparative research.
Conclusion

Despite pointing out the limitations of the existing literature, our critique has shown that the public-private distinction is a significant area of organizational research that needs further analysis. We must do more to analyze the dimensionality and dynamics of public versus private influences on organizations. We have suggested strategies for extending current research into elaborated conceptions and designs to pursue these questions more effectively. Emphasis in organizational research on qualitative and longitudinal methods and on environmental and institutional influences has led to increasing recognition of the importance of issues such as this (Barney & Ouchi, 1986; Hickson et al., 1986; March & Olsen, 1984; Meyer, 1979; Tolbert, 1985). Increasingly, political economists and public policy researchers are stressing the importance of the relations among political and economic institutions, the public policy process, and organizational forms. Organization and management theorists have much to contribute to this topic, and its further development is an exciting prospect for the field.

References


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