

RESOURCE DEPENDENCE THEORY IN PUBLIC MANAGEMENT

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Managing all organization is inseparably connected with taking decisions. In public organizations decision-making is much more complicated than in private sector. It is caused by demands of many stakeholders, who affect organization's actions by resource based relationship. In this article authors relate basic foundations of the stakeholder theory to the resource dependence theory in the context of management in the public organizations.

Key words: Public organization, stakeholders, resource dependence theory (RDT).

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**ТЕОРИЯ ЗАЛЕЖНОСТИ ВІД РЕСУРСІВ
У ГРОМАДСЬКОМУ УПРАВЛІННІ**

Управління організацією нерозривно пов'язане з прийняттям рішень. В громадських організаціях цей процес значно складніший, ніж у приватному секторі. Це зумовлено необхідністю враховування очікування багатьох зацікавлених сторін, які впливають на організацію через ресурсні залежності. Застосовано основні положення теорії зацікавлених сторін до теорії ресурсної залежності в контексті управління громадськими організаціями.

Ключові слова: громадські організації, теорія зацікавлених сторін, теорія ресурсної залежності.

Introduction. For at least two decades many countries (USA, most countries in West Europe, New Zealand, and Australia) have been continuing reforms of their public sector aimed at increasing effectiveness and efficiency of its functioning by transferring management tools and best practices from private organizations. Researchers and practitioners are looking for deeper understanding of decision making conditions that would help to improve this process. One of possible approaches that may be taken for public organizations is resource dependency theory (RDT) according to which organization is an open system which means it continually exchanges resources with the environment. Different organizations and individuals are part of this exchange process and influence outcomes of the organization. Power of these stakeholders could be a derivative of their resources which the organization tries to gain by continuous bargaining.

Many stakeholders have the right and possibilities to dispose an important organization's resources and the same they affect organization's decision making process. That is why appropriate management of stakeholders relationships is crucial for success of public organizations. This paper presents reflections of decision making process improvements, specifically stakeholders relationships management with resource dependence theory exploitation.

The importance of stakeholders for public organization management. Modern management can be described as building series of decision-making and creating context for effective implementation of decisions concerning the optimal use of material, capital and human resources (Penc 1995). The management literature underlines the important differences in the process and its determinants in for

private and public organizations. Writers like Rodriguez, Hickson (1995) and Schwenk (1990) show that in for-profit organizations, decisions-making processes run far more gently and peacefully (Rainey, Chun 2005). Public organizations experience by more turbulences, interruptions and conflicts. Researchers attribute these differences to roles that public and private organizations play in society. For-profit organizations operate to gain profit, while public non-profit organizations pursue socially important aims which hierarchy is variable over time and dependent on the currently prevailing political powers and electoral preferences. Socio - political conditions are an important factor for the functioning of public organizations. They necessitate the use of specific management solutions, as well. At the same time strategic decision-making needs to take into account the significant limitations. The literature emphasizes different approaches to decision making process in the public organizations including belief that specific characteristics of public organizations must be taken into account. These characteristics , include (Rainey, Chun 2005; Frączkiewicz-Wronka., Dyaczyńska, Szymaniec 2010; Hanna, Daim 2007):

- the existence of many stakeholders whose interests do not coincide, but sometimes are conflicting,
- high power of stakeholders with significant authority
- decision-making is rare in a rational and factual way because of the action in a highly politicized environment,
- lack of profit as a measure of efficiency, while assessing in terms of civil preferences, political interests and the legislative selections;
- lower susceptibility of the participants to financial incentives, and their greater orientation to the mission of the organization, the need to cross organizational barriers in order to identify the various aspects of problems, the relatively high public visibility and transparency of inter-organizational activity (D' Aunno 2006; Rainey 2003).

Organizational decision making process is affected by external factors like social pressure which is more important for public organizations because of stakeholders whose expectations are both formal and informal. Necessity to consider decision making claims and expectations of various stakeholders complicates decision process and forces decision makers to take into account many different and sometimes contradictory criteria for evaluation of possible choices (Bolesta-Kulułka2003; D' Aunno 2006; Rainey 2003, Rogers 1981). The influence of stakeholders in decision making process is undoubtful –half of the 'failed' decisions – that is they were not implemented, only partially implemented or otherwise produced poor results – stems from the fact that decision makers did not used information held by key stakeholders and did not follow their expectations (Bryson 2004).

Public institutions are created and live by satisfying the interests of those groups that are sufficiently powerful to secure the funds (Rainey 2003). Thus stakeholders are a crucial for success of the organizations. The stakeholder concept is not clearly interpreted in the literature. According to the classical recognition proposed by Freeman, a stakeholder is an individual or group that may affects one's ability to achieve the objectives of the organization, or which may be affected by the organization that reaches its goals (Freeman 1984). Other definitions define stakeholders as risk carriers or groups or persons directly or indirectly interested in the activities of the organization in its efforts to achieve the goals (Frączkiewicz-Wronka, Austen 2009). According to the model proposed by Mitchell, Agle and Wood stakeholders become important for managers if they have got three attributes: power, legitimacy and urgency to act (Mitchell, Agle, Wood 1999).

Stakeholders importance for the public organizations decision-making process stems also from the fact that public organizations operate in a highly politicized environment. Political involvement of public organizations forces the managers to take decisions in accordance with the logic of the political game, where the traditionally understood rationality is displaced by political rationality (Bryson 2004). The choice of specific policy options is dictated not the actual assessment, but the bargaining power of the most influential stakeholders.

The organization, as already underlined, should aim in its actions to meet the expectations of its stakeholders at least at a minimum level. Public organizations are characterized by a variety of

stakeholders, whose interests may be consistent but usually there is a conflict of interest of particular groups of stakeholders (Mainardes, Alves, and Raposo 2011). The concern for stakeholders is the most important element in the process of strategic management as a success in public organizations depends on the satisfaction of key stakeholders. At the same time satisfying means to meet these requirements that in the individual stakeholder hierarchy are seen as valuable. Such ascertainment means that these expectations may (and often do) oppose to economic goals of organization (Bryson 2004).

The key issue for the effective management of the organization is to identify stakeholders and their expectations for the organization and the ability to influence the activities of the organization. Mitchell and others have proposed the following indications of the identification of stakeholders (Mitchell, Agle, Wood 1999):

1. Dependencies:
 - the existence of relationships between stakeholders and the organization - the authorized relationships, such as exchange, moral responsibility, where the stakeholders are involved in the process of creating common value,
 - stakeholder uses his position among the organization - the organization has or may have an impact on stakeholders;
2. The relationship of power - the dominance of stakeholders:
 - organization depends on the stakeholders - stakeholders, without which the organization would cease to exist, interact with the organization and cause its actions can be taken
 - stakeholders have power over the organization – they have an interest in the activities of the organization and ability to influence it;
3. Power dependencies - the dominance of the organization:
 - stakeholders depend on the organization - the organization is responsible for the welfare of stakeholders, or they have a legal or moral claim to the organization,
 - organization has authority over stakeholders - they may affect the organization or carrying out the purposes of the organization has influence over them;
4. Mutual dependence of power:
 - organization and stakeholders are dependent on each other – achievement of the objectives by stakeholders depends on the organization and vice versa;
5. Basics of the validity of relationships:
 - the relationships between the organization and stakeholders take a form of a contract – they supply the organization in key resources and expect that their interests are met, may have ownership in stocks of the organization or be interested in having the right to property
 - stakeholders have a claim against the organization – stakeholders are groups to which organization is responsible for those who have any interest in the operation of the organization,
 - stakeholders bear the risk – some form of the risk is born by stakeholders since they made a capital, human or financial investment in organization or the activities of the organization cause the risk stakeholders have a moral claim to the organization - can benefit from the organization's operations or activities of the organization may cause them damage.

Resources as a source of stakeholders' power – Resource Dependence Theory. Recognized resources which are owned by stakeholders and which organization need underlie the relationships between the organization and a stakeholder and are at the heart of resource dependence theory. The basic assumptions of the theory were presented by Pfeffer and Salancik in 1978 in their book 'External Control of Organizations: A Resource Dependence Perspective'. The authors point out that in the literature and management practice a lot more attention is paid to the problem of increasing the effectiveness and efficiency of resource use, ignoring the same the major problem of obtaining resources from the environment. None of the organizations, whether public, private or non-profit is not self-sufficient and acting as an open systems. They are continuously entering various types of exchange transactions with the environment. In the opinion of the authors the necessity of obtaining resources from the environment is not

a problem for organizations - the problem is the instability of the environment from which resources are obtained, e.g. the emergence of competition, which can restrict access to resources (Pfeffer, Salancik 2003).

Resource dependence theory is based on the belief that resource providers may influence the activities of the organization in order to implement their own expectations. The manager's task is to identify the interests groups and resources which the organization has to gain from the particular group. The manager has to also assess the importance of interests group and its resources for organizational activity. The organization should create coalitions with particular interest groups which aim is to satisfy the partner who support the organization by streams of its resources. Because different groups may have conflicting expectations towards the organization, manager must ultimately define whose expectations takes into account and whose ignores (Pfeffer, Salancik 2003).

There are three core ideas of RDT:

1. social context matters,
2. organizations create strategies to increase their autonomy,
3. pursue interests and power is important for understanding actions taken by organization.

Pfeffer and Salancik presented in their book other conditions which increase the likelihood of the influence of other firms being successful. Below is a list of the conditions which affect the extent to which an organization will comply with control attempts (Pfeffer, Salancik 2003):

1. The focal organization is aware of the demands.
2. The focal organization obtains some resources from the social actor making the demands.
3. The resource is a critical or important part of the focal organization's operation.
4. The social actor controls the allocation, access, or use of the resource; alternative sources for the resource are not available to the focal organization.
5. The focal organization does not control the allocation, access, or use of other resources critical to the social actor's operation and survival.
6. The actions or outputs of the focal organization are visible and can be assessed by the social actor to judge whether the actions comply with its demands.
7. The focal organization's satisfaction of the social actor's requests is not in conflict with the satisfaction of demands from other components of the environment with which it is interdependent.
8. The focal organization does not control the determination, formulation, or expression of the social actor's demands.
9. The focal organization is capable of developing actions or outcomes that will satisfy the external demands.
10. The organization desires to survive.

It is not necessary that all conditions be present for influence to be observed, however, that as more of the conditions are met, the probability of external control becomes more and more likely.

Three factors are critical in determining the interdependence of organizations. The first is the importance of the resource, the extent to which the organization requires it for continued operation and survival. The second is the extent to which the interest group has discretion over the resource allocation and use. And, third one is the extent to which there are few alternatives, or the extent of control over the resource by the interest group, is an important factor determining the dependence of the organization (Pfeffer, Salancik 2003).

There are two dimensions that must be taken into account to assess the importance of a resource exchange – the relative magnitude of the exchange and the criticality of the resource. These two dimensions are not completely independent. The relative magnitude of an exchange as a determinant of the importance of the resource is measured by assessing the proportion of total inputs or the proportion of total outputs accounted for by the exchange. The second dimension concerns the criticality of the input or output to the organization. The criticality of resources in the functioning of an organization is more difficult to determine than the sheer magnitude of its use. Criticality measures the ability of the organization to continue functioning in the absence of the resource or in the absence of the market for the output. A resource may be critical to the organization even though it comprises only a small proportion of the total

input. The criticality of resource can also change in time e.g. during an organizational crisis (Pajunen 2006).

The second major determinant of resource dependence is the extent of discretion over the allocation and use of resources possessed by another actors. There are many forms of discretion over a resource, which is the capacity to determine the allocation or use of the resource. Such discretion is a major source of power and is more important when the resource is more scarce. In an environment dense with organizations and interest groups with a variety of laws and norms, discretion is rarely absolute. More commonly, there are degrees of shared discretion.

Applying the stakeholder theory to the assumptions of resource dependence theory Frooman indicated how stakeholders influence organizational strategy. He proposed four groups of strategies of the impact of stakeholders which are the result of various types of resource dependence between the organization and the stakeholder (Frooman 1999). Typology of resource relationships is presented in Table 1.

Table 1

Typology of resource relationships

		Is the stakeholder dependent on the firm?	
		NO	YES
Is the firm dependent on the stakeholder?	NO	Low interdependence	Firm power
	YES	Stakeholder Power	High interdependence

Source: Frooman 1999

Depending on the nature of the relationship with the organization stakeholders may affect organization for many different ways, either withholding its resources, or use them. The influence can be exerted directly or indirectly through another organization, which are characterized by higher levels of dependency with the organization. Typology of the influence strategies is presented in Table 2.

Table 2

Typology of influence strategies

		Is the stakeholder dependent on the firm?	
		NO	YES
Is the firm dependent on the stakeholder?	NO	Indirect/withholding (low interdependence)	Indirect/usage (firm power)
	YES	Direct/withholding (stakeholder power)	Direct/usage (high interdependence)

Source: Frooman 1999

The withholding and usage strategies Frooman termed as the resource control strategies because by using one of its others can determine whether the organization gets the resources and also determine whether the firm can use them in the way it wants. Two others strategies - the direct and the indirect are termed the pathways of influence (Frooman 1999).

Frooman in his work presented only general strategies which stakeholders can use to affect the organization. Later research used Frooman’s classification of strategy and indicated particular strategies using by stakeholders in each groups (Table 3; Hendry 2005).

Table 3

Typology of influence strategies

	Usage	Withholding
Direct	Partnership; Multi-stakeholder dialogue	Blockade
Indirect	Letter-writing campaign (public); Shareholder resolution (stockholders)	Boycott (customers); Litigation (courts); Lobbying (legislators)

Source: Hendry 2005

The higher resource dependence, the higher uncertainty of the environment of the organization. In general organizations try to alter their dependence relationships by minimizing their own dependence or by increasing the dependence of other organizations on themselves. Particularly there are few possibilities of coping with uncertainty. First, organization can meet the demands of a particular stakeholder. A second method of action is avoiding influence of the environment. A third strategy involves managing and avoiding dependence. It essentially means creating alternative resources. The fourth strategy is about managing the conditions of social control: one can try to dominate controllers or reduce their dominance (Nienhüser 2008).

Conclusion. Public organizations operate nowadays in a much more turbulent and uncertain environment than before. Uncertainty is a force affecting many decisions of the organization. To increase the effectiveness of the decisions it is necessary to reduce the uncertainty of the environment by ensuring the goodwill of key stakeholders who may affect the action taken into organization through the existence of the resource dependence between the organization and stakeholder.

Analysis of managerial practices in public organizations clearly highlights the need to build specific strategies aimed at re-evaluation of the identified key stakeholders who supply critical resource for the organization. Based on the analysis of the literature it may be stated that for the public organization opinion leaders, total manipulation by legislators and interest groups are more important for decision-making than economic issues, which are crucial for private organizations. That means public organizations should measure achieved results and present them to the stakeholders so that they are more willing to share their resources with the organization.

Focusing on the influence strategies of stakeholders instead of the response strategies of organizations may, at first, take a counterintuitive approach to strategic stakeholder theory. Managers to act strategically and plan the actions they intend their organizations to take, should have some idea of how their stakeholder will act and how they should react for particular actions of their stakeholders. Knowledge how stakeholders may try to influence an organization is crucial for every manager.

To sum up, as both research dependence theory and stakeholder theory are not well developed in the context of public organizations, we believe that examining how management of stakeholders relationships may decrease resource dependence theory may be a fruitful topic for future research.

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THE ESSENTIALS OF COMPETITIVE BUSINESS MODELS FORMATION

The aim of the research was to identify the elements of business models. The literature research studies allow us to state that the researchers assume one of three business models formation concepts: creating the value for customers, creating and supplying values, creating, providing and capturing values. Each of these ideas implies the necessity of applying different set of elements. The economic reality is best described by a business model which is based on CROLVS construction.

Key words: business model, business model CROLVS structure, creating the value for customers, providing the value to customers, capturing the values.

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ОСНОВНІ ЕЛЕМЕНТИ ФОРМУВАННЯ КОНКУРЕНТНИХ БІЗНЕС-МОДЕЛЕЙ

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Мета статті – визначити елементи бізнес-моделей. Дослідження літератури свідчить, що дослідники приймають одну з трьох концепцій формування бізнес-моделей: створення вартості для споживачів, створення і споживання вартості, розподіл і споживання вартості. Кожна з цих ідей свідчить про необхідність використання різних елементів. Економічна реальність найкраще описана в бізнес-моделях, заснованих на CROLVS конструкціях.

Ключові слова: бізнес-модель, структура бізнес-моделі CROLVS, створення вартості для споживача, розподіл вартості споживачам, споживання вартості.

The definition of the researched problem. Nowadays, more and more countries wish to join the European Union. Among many others, there is Ukraine which has been declaring its will to access the EU. Functioning within an economic community involves the decrease of administrative barriers which protect national enterprises. It means that foreign enterprises are allowed to enter the home market. In the result we can observe the increase of competition. In the conclusion, it is possible to state that modern enterprises function within the increasing international and home competition. They operate using their competences, resources, processes, relationships and organizational structures. The configuration of all these elements comes as an important issue of management, as it decides about economic benefits of the enterprise, gained from the business operation. This configuration can be comprised in a business model.