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## THE RESOURCE-BASED VIEW IN THE MANAGEMENT OF A PUBLIC ORGANIZATION – A STAKEHOLDER PERSPECTIVE

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**The essence of modern management in public organisations is focus on values preferred by the stakeholders. The key to the success of public organisations is building a strategy based on intangible resources at their disposal to satisfy the needs of critical players. Therefore, it seems that there is a necessity to join in research of the possible application of the RBV theory and stakeholder theory to manage public organisations.**

**Key words:** Public management, stakeholders theory, resource-based view (RBV).

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## РЕСУРСНИЙ ПІДХІД В УПРАВЛІННІ ГРОМАДСЬКОЮ ОРГАНІЗАЦІЄЮ – ПЕРСПЕКТИВА ЗАЦІКАВЛЕНИХ СТОРІН

**Сутністю сучасного менеджменту в громадських організаціях є зосередження уваги на цінностях, яким віддають перевагу зацікавлені сторони. Ключем до успіху громадських організацій є будівництво стратегії, заснованої на наявних у розпорядженні нематеріальних ресурсах так, щоби задовольнити потреби критичних гравців. З цих причин видається виправданою необхідність аналізу можливостей, які надає застосування ресурсної теорії (RBV) та теорії зацікавлених сторін в управлінні громадськими організаціями.**

**Ключові слова:** громадське управління, теорія зацікавлених сторін, ресурсний підхід (RBV).

**Introduction.** In the last years of the twentieth century, public organisations walked away from the philosophy of management based on a bureaucratic system towards a market-oriented, result-driven model. The essence of modern management in public organisations is the focus – greater than in the private sector – on values preferred by stakeholders. Hence, new challenges for their leaders, including the scope and content of management tasks relating to the strategy development and implementation. Another important aspect of leadership in a public organization is employee empowerment and the resulting involvement of employees in the process of developing and implementing the strategy and their awareness of the resources owned by an organization and the relationship between the adequate use of these resources and effectiveness. As a result, old hierarchical structures are being replaced by more reactive organisations, which perform tasks catering to the needs socially recognized as important. The key to the success of a public organization is its ability to identify stakeholder expectations and develop a strategy based on mostly intangible resources at its disposal. In particular, a specific rent, generated if a public organization creates values relevant to stakeholders. The political, economic and social existence of public organisations depends of its ability to satisfy – according to the criteria preferred by stakeholders – the needs of critical players. Therefore, it seems necessary to research possible applications of the resource-based theory and stakeholder theory in the management of public organisations.

**The evolution of public organization management.** Management of public organizations changed substantially at the turn of the 21st century. Although political and economic analysis

unambiguously confirms the existence of a number of similarities and differences between the European public systems (Kickert 1997; Pollitt 2001, 2002; Kleer 2005), in recent years we have observed a series of changes which have led to the emergence of a new management paradigm (OECD 1995), the essence of which is the shift from hierarchical organizational structures towards decentralized, flat organizations based on matrix structures and teams and relying on knowledge and responsibility transfer to lower levels within an organization. Additionally, due to the application of new technologies, communication systems allow efficient information flow vertically, horizontally, laterally and diagonally. They also increase opportunities to control and monitor activities on a strategic level and enable better coordination and cooperation on operational levels. New decentralized management structures, accompanied by decentralized budgets and new employee responsibilities, have facilitated the emergence of more flexible organizations capable of facing the challenges of a dynamically changing environment.

The initial transformation stage in public organizations was mainly connected with the changes in the structure, allocation and control of resources used to meet the needs socially recognized as important. These changes involved raising the awareness of the costs relating to undertaken initiatives and, as a result, seeking cost-cutting opportunities and effectiveness in the whole sector of public services. The natural consequences of this evolution were the structural changes aiming to create autonomous organizations responsible for service provision, which would operate based on clearly defined rules, precisely formulated goals and rational evaluation indicators (in Poland, the four social reforms of 1999 were of particular importance as they empowered public organizations). As a result of those changes - introduced both to reduce public spending and implement market mechanisms – some countries supported the transfer of public services to private sector organizations (privatization). The countries which held a more critical view of privatization introduced internal contracting (internal market) in order to create the appearances of competition and result-based systems (Pollitt, Bouckart 2001).

The second transformation stage involved initiatives aiming to modernize the public sector which focused on the quality of the services provided (customer orientation) and stakeholder orientation. Customer orientation (within the public services sector) was characterized by intensive research into customer preferences and sought the most effective methods (Stewart, Clarke 1987), also to optimally configure human resources necessary to provide services on a desirable level. It became increasingly important to find solutions which would produce such a relationship between the legally defined citizen rights to a particular scope and volume of public services and the economic effectiveness of public organizations that would be the most advantageous in terms of marginal costs. The development and implementation of pro-effectiveness solutions contributed to greater transparency of resource allocation and a clearly defined hierarchy of goals and consumer expectations, which, in turn, increased the responsibility of public organizations toward their users in the way that private organizations are responsible to their customers. The main difference that has remained is the fact that if customers are not satisfied they may choose not to buy a product or a service from a private organization, whereas public services users do not have this choice, because the electoral mandate given to a party/parties by society means that public resources are allocated and spent based on particular political rules. As a consequence, in public organizations the issue of decision making, taking into account the resources valuable for an organization and its stakeholders, is of critical significance for the success of the initiatives that are undertaken. An important characteristic of a decision-making process in public organizations is social participation and openness, while in private organizations consultations are usually closed within a particular entity (Bednarczyk 2001). Decision makers in public organizations make decisions the costs of which are incurred by an entire society, hence the expectation that the decisions should be right.

To sum up, the change involving the shift towards a new model of public organizations means in practice that management methods, tools and instruments used in the private sector will be increasingly used in the public sector. This promotes the managerial approach to management in the latter. In management theory, we can observe the search for confirmation or negation to the existing approaches, formulated as a result of research into the practices of private organizations, and their usefulness for the analysis of public organizations and their operations.

**The theoretical approach to the Resource-Based View in strategic management from the perspective of a public organization.** In theory and practice of strategic management a number of different concepts of corporate competitiveness have been formulated. In the 1980's strategic research generated a new approach explaining economic results of businesses operating in a competitive environment through the resources owned by them. In western literature this approach is referred to as the Resource-Based View of the Firm (RBV), whereas in Polish literature as a resource approach or strategy. RBV is based on the assumption that in business the key success factor is the access to strategic resources and skills and their effective use. In RBV we assume that if some of the resources and skills of an organization allow to seize opportunities or eliminate risks, are available only in a small number of businesses and are difficult to imitate, they can contribute to gaining competitive advantage. These resources and skills should be strengthened and become the foundation of a corporate strategy, because, as M. Bartnicki argues, it is a unique set of resources rather than a competitive environment that decides about the success of a business, though the significance and influence of an environment cannot be neglected (Bratnicki 2001). An enterprise owning the resources relevant to its economic activity and adopted strategy has more chance to succeed than an enterprise whose resources are not compatible with its activity. The set of resources owned by an enterprise allows this enterprise to do something that competitors cannot do or do with difficulty. First of all, however, these resources make it possible for a business to create added value for customers and seize opportunities emerging in an environment or eliminate risks. Resources which contribute to added value are referred to as strategic resources, while resources critical to a business's competitiveness, the ones that are difficult to re-create or replace form strategic potential, which allows to achieve long-term competitive advantage. Resources that have become the source of competitive advantage have to be difficult to copy or imitate due to legal protection or because of a so called knowledge barrier (competitors do not know how to imitate processes or skills of an organization).

The attempt to use RBV to develop the theory and practice of public management requires a short outline in terms of conceptualizing significant research outcomes achieved in recent years. The theory itself, initially known as the theory of a firm based on resources, originates from a classic 1959 publication by E. Penrose – *The Theory of the Growth of the Firm* (Penrose 1995). The theoretical framework of RBV is rooted in studies on the economic theory, although in the late 1980's a number of publications on strategic management pointed out that there were significant differences between the effectiveness achieved by firms operating in the same industry. Research showed that – contrary to popular belief – internal factors had a much more significant impact on increased effectiveness in a firm than external ones. A milestone in the development of the RBV theory was the research conducted by B. Wernerfelt (1984) and R.P. Rumelt (1984). In 1984 they published two articles systematizing RBV, which contributed to growing interest in those issues within strategic management theory. Although B. Wernerfelt is perceived as the first to develop E. Penrose's ideas, it is J. Barney who is credited with the development of this theory.

Continuing studies initiated in the 1980's, in his work on strategy R.M. Grant (1991) stated that focusing on the strengths and weaknesses of an organization should become a priority in designing its development trajectory. He also indicated the existence of the relationship between the strategy of an organization and its external environment, this way setting the direction for the search of a rent coming from stakeholder satisfaction with the state of the resources of an organization or the directions in their changes. In his opinion, the interest in the influence of an organisation's resources on its strategy was a response to dissatisfaction with a static and excessively balanced economic structure, which initially dominated the thinking about an organizational strategy.

J. Barney (1996), recognized as the actual author of the resource-based theory, emphasizes that the approach to an enterprise from the perspective of its strengths and weaknesses as well as opportunities and threats that it faces in its environment may be applied both purely economically and from the modern interdisciplinary angle. This approach may be used to determine how organizational resources may affect the performance of a firm and contribute to gaining long-term competitive advantage. The researcher points out that the resource-based theory focuses on distinctive resources at a firm's disposal. Organizations operating in the same industry may have heterogeneous/versatile strategic resources. As a result, the resource-based theory involves focusing on the role of resources that cannot be transferred or

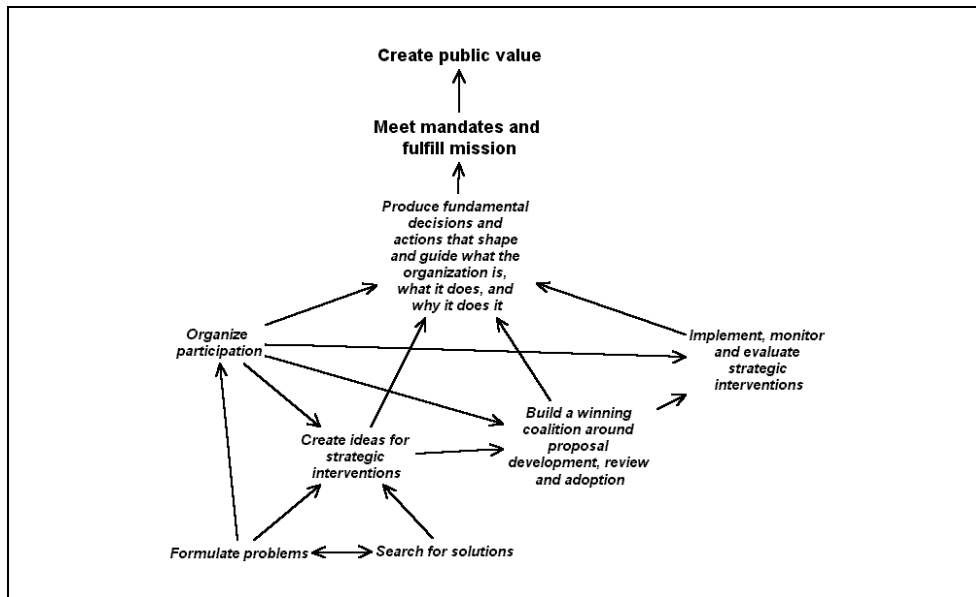
changed in the process of gaining competitive advantage. When it deals with competitive advantage, RBV takes into account the relationships between the internal characteristics of an organization and its performance; hence the assumptions are different from other theories, which primarily concentrate on the assessment of opportunities and threats coming from the environment of an organization. The novelty of J. Barney's (1997) approach involves connecting the ideas from already mentioned E. Penrose's publication, where the author claimed that firms might be seen as combinations of resources and, accordingly, that different firms had different combinations of resources, with P. Selznick's work (1957), where the researcher stated that some resources of an organization were unique and it was simply impossible to imitate them. Therefore, these resources and skills should be developed so that they can become the foundation of a strategy, as it is them, not a competitive environment, that determine the future success of a firm, although the significance and influence of an environment cannot be completely ignored. In his work on the resource-based theory J. Barney often quotes R. Daft (1983), who emphasizes that the resources of an organization constitute a collection of all assets, skills, competences, processes, attributes, information, knowledge and many other elements controlled by an organization, which enable it to change and implement strategies aiming to enhance productivity and effectiveness. This way, in our opinion, he strongly combines RBV with stakeholder theory.

In recent years the resource-based theory has often been classified as a paradigm or an approach within strategic management, since it offers a new perspective on strategy development and implementation. It stresses the fact that firms should not only focus on what was good in the past or even on what is good today, but on what can be done better in the future. As S. Sharma and H. Vredenburg argue, the global economy diminishes development opportunities of businesses due to a large number of organizations competing for the same market segment, so resource-based strategies may become a good solution for firms looking for their own ways to develop and gain competitive advantage (Sharma, Vredenburg 1998).

In the context of the directions of changes discussed in the first part of the article, this idea offers a good opportunity to develop RBV in public organizations. The prime goal of public organizations is to create public value by pursuing the mission of an organization and meeting the electoral mandate, this way creating value for stakeholders. The completion of the mandate and the mission depends on the degree of performing a number of tasks and functions by organizations (Bryson 2004). The key to the success of a public organization is to identify and reinforce a strategic ability to create maximum value for major stakeholders while keeping costs at a reasonable level, which at the time of limited resources allocated to meet public needs, growing social expectations, increasing skepticism towards public institutions and strong pressure on providing public services at the level satisfying for stakeholders, is becoming a daunting task for the managers of public organizations. Public organizations cannot meet their targets, create public value and effectively respond to changes emerging in an environment without paying constant attention to the quality and usefulness of their resources.

In the chart above we can see the relations created as a consequence of accepting the view that the prime goal of public organizations is creating public value by performing tasks and fulfilling the mission. The performance of an organisation's tasks and the fulfillment of its mission depend on the resources the organization owns and the functions that it performs or the decisive initiatives that it completes. The performance of an organisation's tasks and the fulfillment of its mission should stem from making fundamental decisions and steps which shape the organization and indicate what it really is, what it does and why it does it; additionally, what mandate and resources it has to do it, which confirms the usefulness of the resource-based theory in public organization management. Making decisions and taking initiatives require participation, ideas for strategic intervention (which, in turn, depends on defining a problem and seeking a solution), building a winning coalition around the strategy, and, finally, reviewing, approving, implementing, monitoring and evaluating the strategic intervention formulated based on the resources owned, and communicating with stakeholders. Stakeholder focus is important for the whole process of strategic management, because "success" of a public organization – and its survival, too – depends on satisfying key stakeholders according to how they understand value (Bryson, Ackermann, Eden and Finn 2004; Moor 1995). As H. Rainer argues, public organizations are born of and live by the satisfaction of interests that are sufficiently influential to maintain the organisations' political legitimacy and the

resources that come with it (Rainey 1997). If key stakeholders are not satisfied, at least minimally, according to their criteria of satisfaction, it will only be natural that budgets and activities will be reduced, which means that a number of employees will lose jobs or new initiatives will not be initiated.



Source: Bryson, J. M. *What to do when stakeholders matter: Stakeholder identification and analysis techniques* [in] "Public Management Review" no. 6(1) 2004, pp. 21–53.

In his seminal book, *Strategic Management: A Stakeholder Approach*, R. E. Freeman defines a stakeholder as an individual or a group which may influence, or be influenced by, the goals achieved by an organization (Freeman 1984). Adapting this definition to organizations in the public sector means that we accept the assumption that stakeholders are:

- 1) all parties that will influence or be influenced by strategies developed by a given organization;
- 2) any individual, group or organization that demands the attention of a given organization and its resources or is affected by its outcomes;
- 3) individuals or small groups able to respond to, negotiate with or change the strategic future of a given organization;
- 4) individuals or groups that depend on a given organization while achieving their own goals and, simultaneously, the organization is dependent on them.

Taking this into account, J. Bryson claims that strategic management processes in public organizations that are backed with a reasonable number of competently conducted analyses identifying stakeholder expectations from the resources and activity of public organizations have better chance to succeed – i.e. fulfilling the mission and creating public value – than those that do not have such analyses. Stakeholder analysis should help managers find out who their key stakeholders are and what will satisfy them, hence what resources the organization should develop and strengthen. Stakeholder focus is also necessary to assess and improve political viability, in particular when it comes to articulating and implementing the concept of common good and it is crucial to satisfy those who are involved in and have an influence on an organization that the requirements of procedural justice, rationality of conduct and legality have been met. We have to remember that the above does not mean that all possible subjects need to be satisfied and that the choice of subjects key to an organization is political in nature and carries ethical consequences and judgments.

**Conclusion.** Summing up, we want to emphasize that recent years have brought a significant change in the functioning of organizations operating in the public sector. This change stems from the civilization development and all its positive and negative aspects, in particular problems connected with the democratization of a modern state, whose functions have considerably extended, which creates the necessity to reform the public sector. Principally, in order to be effective, the reform has to be implemented on two levels: on the level of a state, involving a political and economic doctrine, and on the level of an

organization, involving changes in its managerial practices. The essence of these changes should be to seek such ways to increase the effectiveness of managing public resources used to provide public services that will build human capital on a desired level and meet the needs that are socially recognized as important for creating the rules of social and economic development.

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