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Productivity in Public and Private Sectors in the U.S.: A Comprehensive Review through Passage of Time

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Abstract

This study examines the notion of productivity in both public and private organizations, the difference between the two sectors and how productivity measurement for each sector has to be determined. The article argues that designing viable measurement instruments to measure productivity should be based on the organizational goals as well as customers' expectations. Further, this study underscores the important factors that influence a viable performance measurement system, its sustainability and success. This work emphasizes the significance of performance management framework and how to use motivational factors for employees to embrace performance standards for boosting productivity in public-private domains. Finally, this study argues that measuring productivity can become easier with usage of latest technologies, ongoing training and continued education in order to keep employees engaged while improving productivity in public and private organizations.

Keywords: Public organizations; Private organizations; Productivity; Benchmarking; Performance measurement.

Introduction

A large number of empirical evidence supports the claim that public and private organizations differ in a number of ways [1]. Rainey and Bozeman [2] point out that this evidence is contradictory and requires further investigation and analysis of similarities and differences in a range of organizational characteristics between different types of organizations across the public and private sectors. While much of the public-private comparison literature is based on studies performed in the United States, findings in other cultural contexts across the globe are quite different from the American context [3,4].

Given economic crises that affect both private and public sectors of economy, maximization of the workforce output is one of the effective strategies to pay attention to in both public and private sectors. It is a universally accepted fact that, productivity is the most important aspect of workforce management as organizations mobilize in response to changing public policies and market conditions [5]. Many organizations consider their employees as the most valuable assets that are worth investments in order for them to be productive. Three quarters of organizations with workforce management strategies report an average of 6 to 10 percent payback in less than a year – quite a significant return on investment [6].

As indicated earlier, productivity is the hallmark of any healthy organization; however, public organizations become more cognizant of improving their productivity especially during economic crisis because of their almost fixed budgets. In such conditions productivity becomes a mantra for politicians to either keep their political seat or get elected to a new office. However, regardless of economic downfall, all citizens desire more effective service with lower costs and governments need to be responsive to those demands. Due to the public sector's economic size in any jurisdiction, its efficiency or otherwise affects a good portion of the economy. In addition, public institutions' conduct with creation and implementation of rules and regulations directly influence the productivity of the private sector as well [7]. In some cases, by worsening the economic conditions demand for public sector, productivity increases to a point of national emergency.

Although it sounds easy for politicians to capitalize on the concept of "improving productivity" in the public sector, in order to get elected or re-elected, there are many obstacles that make it rather difficult to operationalize it. Simple recommendations to use the private sector's model to improve productivity in the public sector are not practical due to the major differences between the natures of two sectors. The public sector is heavily influenced by a number of stakeholders. They usually have conflicting interests which makes the whole process of delivery of service in some cases extremely political. Those stakeholders constantly seek influencing the outcome of decisions in their own favor. This political environment is very much in contrast with the private sector which is dominated with one main objective in mind which is profit making. Therefore, the monopolistic and political nature of public organizations affects the nature of service delivery drastically.

Productivity Assessment

In order to produce a service or product, all organizations - public and private - have to go through a process which is composed of receiving input and subsequently converting it to an output using their administrative systems. This output can be a product as in the private sector or it can be in a service format which is usually produced by public organizations. In order to assess productivity of any organization there has to be logical relationship between the output and input in the process of production. This ratio heavily depends on the type of the industry and nature of the service. First step in improving productivity in an organization is to develop some indicators that are able to measure the input and output of the collective process in an organization in order to find out the exact ratio between them. Although measuring the private sector's productivity measurement is quite feasible and possible, unfortunately, most outcomes for public organizations are rather difficult to measure and usually are considered to be "perceived-outcome" rather than real [8]. The major challenge is to come up with realistic indicators that contribute to measuring productivity and performance in the process of providing service to the public. Each service component is an outcome of a process which itself is composed of a chain of events.

In the public sector, the main objective of a productivity improvement program is the ability to identify the process of service delivery as well as its proper indictors to measure it. In the final analysis, the indicators that measure the service have to be both effective and efficient. Although efficiency and effectiveness are not in conflict with each other, most public organizations focus on the effectiveness rather than efficiency of their services. Peter Drucker [9], believes that effectiveness is doing the right thing while efficiency is referred to as doing things right. According to Immordino [10], effectiveness deals with accomplishing the goals of the organization as well as serving as many people as possible. However, efficiency is making the best use of available resources while developing a viable workforce. In a practical sense, in order to accurately measure performance or productivity, all activities should be evaluated and rated within the own context. Those employees, who deal with the process of delivering a service in the public sector, engage in certain activities which have positive or negative impact on the clients. Therefore, views of the clients become a critical factor in determining the perception of productivity for the public sector. In order to be accurate, in measuring productivity or performance, both quality and quantity of output has to be taken into consideration. Therefore, measuring input/output ratio cannot rely on only one factor because each service component is composed of many different factors that contribute to the delivery of service. In many studies, the main indicator of service delivery in a public context is considered to be "customer satisfaction". Therefore, usage of only one factor to measure productivity makes the validity of the process questionable. For example, because of the nature of some public agencies that have to enforce specific rules and regulations – such as police officers – many of their clients cannot be objective in the evaluation of their service because the clients themselves are in violation of the public or private law in society. Therefore, some researchers argue that relationship between nature of the service and the input of customers has to be taken into consideration when measuring the productivity of the public sector [10].

Taking the "customer satisfaction criterion" in mind, the major difficulty in measuring the objectives of public organizations is to meet diversity objectives and in some cases contrasting views of customer's expectations and satisfactions. In other words, the stakeholders in public agencies are too diverse [11]. In these situations, the conflicting views of stake holders might distort the effectiveness of performance measurement systems because those who receive the service might have opposing views on their effectiveness. This is considered the common difficulty in public organizations regardless of the nature of their services [12]. Therefore, it is crucial that in designing performance measures, the views of diverse population be taken into consideration [13].

While the public organizations are concerned with the "customer satisfaction criterion", private organizations are taking a number of more measurable characteristics to assess their productivity such as customer satisfaction, employees' work satisfaction, human resource (HR) politics and practices, return on investment, profit per dollar of sales, and output per hour of labor [14,15].

Developing Measurement Indicators of Productivity

In general, it can be argued that regardless of the nature of the organizations, in order to accurately measure any organizational output, the indicators of productivity should revolve around two main criteria: organizational mission (goals and objectives) as well as satisfaction of customers. According to Neely et al. [16], to develop realistic indicators for measuring productivity in the public sector the driver should be the stakeholders' expectations and their needs and aspirations. In addition, in order to properly conduct a productivity study in public organizations, it is vital to consider the transparency and engagement of the public sector in determining the process and factors that influence the measurement process. This guarantees the success of the process. A measurement system that is poorly designed and implemented can harm achievement of organizational goals and objectives. A clear process and proper indicators directs the employees of the public sector to focus on reaching the organizational goals and there is a good likelihood that they adjust their behavior to achieve them. In addition, Ukko et al. [17], argue that in order for performance measurement to be effective, it has to be connected to rewards. Since financial rewards in the public sector are usually hard to come by, usage of non-financial rewards can be used to improve those behaviors that are in line with stakeholders' expectations as well as organizational values and goal.

There are several popular tools used by public and private organizations to assess organizational performance, such as Balanced Scorecard (BSC), National Quality Award (PNQ), Multicriteria Methodology for Decision Aiding (MCDA), Data envelopment analysis (DEA), Analytic Hierarchy Process (AHP), and other tools [18]. Organizations are advised to choose the most appropriate for their unique context. To measure accurately its productivity, an organization should use instruments that allow for transparency while including stakeholders' criteria and standards for excellence.

Performance Management

Performance management is a great tool to help organizations to develop productive employees. In general, it can be argued that main function of performance management systems is to gather, analyze, and utilize performance related information in order to assist the decision makers in making more realistic decisions [19]. After all, employees are those who are supposed to accomplish the organizational goals. Therefore, their functions and contributions have to be very clear and supervisors and employees have to be able to work together to sustain, improve, and build upon existing performance. Unfortunately, most public organizations use financial measurement of their activities and ignore proper measurement of the non-financial aspects of their performance: More importantly, the quality of their service to the citizens. It is imperative that decision makers in public organizations develop a system that serves them in identification of achievement of their organizational objectives. Therefore, it is important that information used to evaluate performance and organizational processes be reliable and accurate. The performance measures have to be designed accurately to encompass most important factors that clearly measure the tasks and their processes that influence productivity in public organizations [20]. As indicated earlier, since public organizations are in the business of delivering service, their main objective has to be satisfaction of those who receive their services and its compatibility with their organizational mission.

Functions and activities can be drastically improved if organizations spend more time and effort on research and development. According to Dennis Daley [21], organizational effectiveness is the end product of employees working together. To improve efficiency and effectiveness, productivity programs must capture the attention and engage the interest of employees. In other words, the managers have to be able to find out for themselves if they are successful in achieving productivity through employee motivation. Motivation programs have to meet each individual's pre-existing needs. Humans do not like to be uncertain and they have a tendency to avoid things that cause uncertainty. In addition, all employees have to be treated equally and receive compensation relevant to their work. Any violation of this criterion can demoralize them and in the final analysis hurt the organizational output.

Organizational practices provide the framework for employees to understand whether organizations value them as human capital [22]. For instance, HR policies and practices, extrinsic and intrinsic motivational tools and management capabilities influence work satisfaction in employees and their productivity. Rainey [23] assessed 40 middle managers of public and private organizations in the U.S. The study found that public managers were less satisfied than private managers because the former perceive a weak link between their own performance and monetary rewards. In contrast, Karl and Sutton [24] evaluated data from 217 U.S. organizations and found that public employees valued higher meaningful and interesting work compared to employees in private organizations who placed greater value on monetary rewards and compensation. Another interesting finding comes from the study of DeSantis and Durst [25] who found that employees in private organizations were working extra hours toward meeting personal and organization goals while employees in public organizations preferred to maintain work-family balance and would not move with their family for a better job nor sacrifice their family time by working extra hours.

Major Factors that influence Performance Standards

As indicated earlier, one of the hallmarks of productive organizations is their emphasis on research and development. Giving particular attention to research and development assists organizations in developing new types of services or new ways of service delivery. In addition, emphasis on training can use organizational resources to retrain or cross-train employees. Further, using high performing employees as well as experienced ones as sources of improvement can be useful to develop more flexible service delivery. In performance delivery, it is important that managers set clear performance expectations and promote certain activities or behaviors that lead to great expectations. Clear communication with employees and feedback on their performance take away the uncertainty that might develop about the service delivery to customer as well as citizens. Citizen involvement can be used as a source of credible feedback to monitor and modify service delivery. They have to be part of the formal process in order to make monitoring of a feedback process valid. Regarding employee motivation, it is important that employees be rewarded based on their performance and be counseled or trained in case they do not meet the performance standards. This has to be part of the formal process and be conducted in a professional manner. Each organization experiences many processes that help identify and accomplish specific tasks related to organizational goals and objectives. Using proper performance measurement system assists in monitoring proper functioning of those processes through controlling their effectiveness and possible revision in favor of achievement of high organizational productivity. Some organizations use benchmarking as way of setting performance objectives. However, one major difficulty of setting benchmarks is to identify major functions of the organization that are directly related to its functions. As for the public sector, the challenge is to translate those functions that are not quantifiable to measureable factors. Studies show that those organizations that fail to set benchmarks are not productive and the employee satisfaction in those organizations is very low [26].

Conclusion

Workforce productivity is a complex formula that includes any number of organizational, political, technological, demographic, cultural, and economic variables. While both public and private organizations may have some limited influence on the external environment, they may have a greater control on their internal inputs, processes and outputs. Workplace environment and organizational policies and procedures embedded into the organizational culture can play a significant role in workforce diversity.

To ensure the best performance and high productivity, managers at all organizational levels in private-public domains must set clear realistic measurable goals, benchmarks, and reasonable deadlines. Empowering employees to manage and "own" their time will make them feel valued and trusted, which in turn will result in greater productivity. Although public organizations might have limited budgets that do not allow much flexibility for merit-based rewards, private organization have more means of creating a money pool to reward outstanding performance that fuels productivity.

In the final analysis, the assessment function would help us to find out where the organization stands and identify the strength and weaknesses of the operations and activities. It also helps us for future planning based on the new findings. In order to utilize performance measurement, the foremost toll to use is benchmarking [27-29]. In addition, Berman [30] found that Data Envelopment Analysis (DEA), Balanced Scorecard (BSC) and Multi-criteria for decision aiding methodology (MCDA-C) have been the most commonly used tools for evaluating organizational productivity. Measuring productivity has become easier with latest technologies: HR analytics software and automated management solutions help organizations improve productivity and other outcomes.

Ongoing training and continued education in both public and private organizations keeps employees engaged, increases organizational citizenship behavior, perceived organizational support, and results in increased organizational efficiency and effectiveness.

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