

Competition and partnership in public and private sector strategies

Pr. dr. Jacek Stasiak¹

¹„Herbrand” Centrum Medyczne NZOZ w Aleksandrowie Łódzkim,
e-mail: jacek_stasiak@interia.pl

Summary: The existence of the public and private sectors in the modern economy is justified from the point of view of economic policy, especially with regard to its stabilising function (regulatory sphere) and allocative and redistributive function (real sphere).

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Introduction

A characteristic feature of the Polish public sector is its great variety of organisational forms - apart from budgetary units and „classical” extra-budgetary institutions (budgetary enterprises, auxiliary holdings, and quasi-units such as own income accounts), there are many other units, which can be divided into two main groups:

- independent institutions providing various types of services (usually non-material), equipped with formal financial independence (although often the main source of their income is in different ways and on different terms provided by public funds) and quite independent in their operation - entities of this type are e.g., cultural institutions, public universities, independent public health care units, research and development units,
- state legal entities established by separate acts to perform public tasks, usually related

to the management of a separate part of public funds or a separate part of State Treasury assets (in practice they are called government agencies).

The public sector is composed of organisational units characterised by different formal and legal status, different tasks, and also by a very different organisational structure. The well-developed public sector is the largest consumer of goods and services in the economy. Annual purchases of goods and services by public sector entities and organisational units correspond to about 8-10% of the gross domestic product. The demand from this sector is therefore important for production and investment decisions in the economy. However, this largest consumer is unstable, and its behaviour is poorly predictable. When the budget suffers financial problems, this is immediately reflected in the market. Moreover, decisions in this sector are often taken for political rather than economic reasons.

1. The functioning of the public and private sectors

The need for the public sector is indisputable. A modern state cannot exist without administration, judiciary, services ensuring internal and external security of the state and its citizens. It is clear, however, that the functioning of the public sector, especially one as large as in Poland, must have a significant and usually adverse impact on economic processes [Swianiewicz, Łukomska, 2016].

The functioning of the public sector depends both on market imperfections and on public choice mechanisms - it is based on the activity of public institutions as „producers” of specific goods. However, this activity differs from the activities of market (commercial) producers, inter alia, for the following reasons [Sekuła, Julkowski, 2017, p. 34]:

- 1) in the public sector, there is no link between the provision of a good and the payment for it. On the market, an entity always pays for the acquired good and thus acquires ownership rights to it. Meanwhile, a public institution may provide benefits to a specific group of people, but charge the costs (payment) to another group,
- 2) in the public sector, the link between consumption and payment is torn at an individual level and emerges at the society-wide (economy-wide) level, where public expenditure is covered by public revenue collected,
- 3) in the market sector, decisions relate to the characteristics of individual goods (such as quantity and price), whereas in the public sector, political choices usually relate to a bundle of goods (including public goods) that make up the overall electoral

programmes (this is the so-called list of public goods). When we vote for a party, we are voting for its entire programme, not just the parts we approve of. Just like producers who offer their products to recipients, politicians also compete with each other on the „political market”, seeking votes from voters and trying to „sell” them their programmes, which are usually very general, slogans, often populist. Their presentation is aimed primarily at gaining political support. Once the election is won, the winning programme becomes the basis for the government's (public institutions') action with regard to the types, scope and forms of delivery of public goods,

- 4) there is an element of compulsion in the actions of public institutions - as opposed to voluntary market transactions (for example, compulsion to pay taxes, compulsion to protect the environment, compulsion to basic education, compulsion to certain vaccinations). The government not only takes away, using compulsion but also gives, using this form of compulsion - public goods are provided to recipients regardless of the value they represent to them (for example, public institutions impose their system of education, health care, spatial land on society). The element of compulsion could be removed if the government took action with the unanimous approval of all interested parties, which is not only unrealistic (as it introduces decision paralysis) but also irrational (as it results in bribery and blackmail). Therefore, two methods prevail in modern democracies that lead to social consent and legitimacy of public choice, while aiming to weaken the feeling of an element of compulsion in government action - majority rule (limits the influence of the individual on decision-making) and representative rule (introduces indirect democracy and improves the decision-making process).

The complexity of the public sector, the variability of conditions and factors forming its structure, the existence of cause-effect relations between the components of the public sector causing processes of change in the attitudes of potential producers and suppliers of public goods as well as consumers (local communities) make the effectiveness of the implementation of innovative solutions (increasing quality growth in the public sector) difficult to forecast.

Nowadays, the public sector offers four groups of goods/services to local communities[Köppl-Turyňa e.o., 2016]:

- 1) the first group consists of universal goods and services produced and provided by the public sector irrespective of place, time and level of development and social system,
- 2) the second group includes goods produced by the public sector but which are dependent on:
 - place, time and external environment,
 - the level of economic and social development,
 - the social and economic system or, more precisely, the economic model,
 - a social system conditioned by the specific nature of its institutions,
 - the political system;
- 3) The third group is made up of mixed goods of a universal nature and specific mixed goods of a general or local nature. This group has three types of determinants:
 - firstly, while there is a certain „iron” set of mixed goods of a universal nature, this is highly dependent on place and time, both in terms of completeness and scale of need,
 - secondly, the extent to which this supply is exclusive to the public sector and can be outsourced to specialised private sector institutions remains an open question,
 - thirdly, the possible direct participation of households or enterprises in the financing of these goods is not entirely clear;
- 4) the fourth group is made up of broadly defined global public goods of pure and mixed nature.

Having a general classification of goods/services offered by the public sector, it is possible to build a basic model showing not only the structure of the market offer but also the main providers (producers). In the face of inefficiencies in the public sector (in some service areas), the private sector offers its assistance. Against this background, it is possible to formulate some theses:

- the private sector coexists with the public sector, but for the former the latter is indispensable,
- the mutual relations between the two sectors in contemporary conditions vary (from cooperation to competition).

The aforementioned complexity reveals a methodical difficulty in constructing and describing a universal model of public sector functioning from the point of view of its service obligations and implementation preferences, which would suit all states and economies and,

above all, local governments. However, a conscious attempt can be made to separate public services into [Wołowiec, Cienkowski, 2015]:

- services that should absolutely be assigned to the public sector (the so-called pure public goods),
- services whose supply can be provided (variably) by: the public sector, the private sector, on behalf of the state, as well as by the interaction of the public sector with the commercial sector (these are the so-called universal mixed goods).

It follows from the aforementioned assignments and findings that both sectors (public sector and private sector) are predestined to engage in public service delivery processes. In practice, both the strategic goals of these sectors and the strategies of their organisational units clearly differ. Market mechanisms make the private sector-oriented in its activities to accumulate the surplus of revenues over costs, while for the public sector the most important thing is the quality results of the offered public services (mainly the positive perception of local communities).

In countries with highly developed market economies, special procedures have been developed to define the scope of rights and obligations of interested parties involved in the provision of public services. In practice, there may be cooperation between the two sectors on a partnership basis, or there may be competition in the provision of the same public services (so it is important which sector is preferred by the local community). Market mechanisms are useful here.

Partnership refers to the relationship between public authorities, non-governmental organisations, economic operators and institutions of the business environment. In relation to partnerships, we can speak of undertakings of public utility, carried out by private and public entities working together, with mutual institutional and capital commitment and (more or less) joint sharing of the benefits and risks arising from it.

The private and public sectors share responsibility for providing quality public services to society. The public party exercises administrative authority has a significant influence on business opportunities and conditions by deciding on the granting of concessions, permits and regulations, and disposes of property of strategic importance for local development. In contrast, the private sector tends to have more knowledge, technology, financial resources and higher operational efficiency, which affects its competitive strength.

The problem of real cooperation between these sectors should also be viewed from the point of view of threats to the public sector resulting from the involvement of the private sector in the process of providing public services. The most important ones include [Kopańska, 2017]:

- limiting the direct influence of local government units (acceptance of private sector provision of services) on the executive process (ex-post reaction may be ineffective),
- high transaction costs,
- weakening of the negotiating position of public authorities,
- a reduction in the level of quality in the provision of public services,
- loss of jobs for public sector employees,
- restriction of access to services,
- limiting the influence of the public administration on the market behaviour of commercial operators in the public sector.

Other types of problems arise when there is competition in the way firms from both sectors behave when providing the same type of public service (there may be different attempts to influence service recipients, innovations in access to services, differential payment for services without social justification, etc.). The intensity of competition in the public sector can be determined by various factors. These include, for example:

- 1) the low growth rate of demand for specific public services or its decline. Such a state does not require additional undertakings on the part of the executive units of the public sector, as the potential demand from local communities is satisfied, while the resources freed up (material, financial, human) can be reallocated to the implementation of other services,
- 2) high fixed costs of providing certain public services. The fact of high fixed costs may be an important argument for the private sector not to apply to enter the public sector, as there will be constant pressure to produce at close to maximum capacity,
- 3) the unpredictability of moves and varying attitudes of competing operators. If in a public service market their operators "do not play by the same rules", their atypical behaviour may introduce a great deal of uncertainty (this type of situation occurs, for example, in health care, education, etc.),
- 4) low cost of changing the service provider. For recipients of public sector services (the free ones), it is not important who provides these services, which is important that they are of adequate quality. Changing the producer of services does not cause any effects

for the recipient,

- 5) the great importance of a given service in meeting basic social needs. The closer a given service is to a mass product, the more competition it is likely to face on the market. As a rule, the use of a trademark leads to less competition. This relationship is recognised by service providers representing both the public and the private sector,
- 6) the high importance of a specific public services market for service producers representing the public and the private sector. Under the conditions of the market economy, the only option is to continue the competitive struggle or withdraw from the market (such a situation applies, for example, to certain municipal services). The high importance of a given market segment for the main producers will induce them to stay on the competitive field. Such a situation seems realistic in the case of high exit costs from the public sector.

For the commercial sector, barriers to entry into the public sector (in addition to the need to compete e.g., with lower prices) may prove to be an important issue. The emergence of new public service producers is likely to have an impact on the lower overall profitability of the public sector. In practice, there may be various barriers to entry in the public sector, some of which are:

- 1) economies of scale. The profitability of providing certain public services may turn out to be so low in relation to the size of the material and personnel factors involved that the private sector may not be interested in entering the public sector. Otherwise, higher costs and lower margins must be accepted,
- 2) benefits from the experience. Low costs of providing certain public services may be the result of acquired experience, i.e., of having devised the most efficient ways of delivering them (provided that their scope is significant). Newly entering contractors are always at a disadvantage,
- 3) capital costs of entering the public service market. High capital costs of entering the public sector significantly limit the number of potential commercial sector entities interested in taking over certain services (e.g., taking over public transport services requires large expenditures on rolling stock),
- 4) access to distribution channels for public goods/services. If the public sector does not make its service distribution channels available to the private sector, private sector contractors will have to incur additional costs to organise their own distribution network. This may make it unprofitable for the private sector to enter the public service market,

- 5) government and local government policy. By appropriate legal acts and decisions of local governments, effective barriers to entry into the public service market can be created for the private sector. Overcoming them makes the intention to enter ineffective, which guarantees exclusivity for the public sector.

The review of the mentioned conditions accompanying the processes of providing public services shows that, in practice, there are various relations between the public sector and the commercial sector. For research purposes, three model strategic situations were conventionally distinguished, which show the qualities (characteristics) of the state of relations between these sectors. In the phase of identification of characteristic elements for the distinguished model situations, while respecting the pragmatic values of these solutions, two basic criteria were used to order and value the relations between the public sector and the commercial sector (in the organisational, economic and social sphere, which translate into the quality of public service provision):

- the existence of clearly discernible strengths and weaknesses in the interaction between the sectors,
- systemic solutions for the functioning of the state and their impact on solutions concerning the scope and forms of providing public services.

Depending on a number of factors characterising the actual state of needs of local communities for public goods/services, their implementation may be realised according to one of the strategies, which in a model form have been defined as:

- the partnership model,
- the model of the competition using market mechanisms,
- the model for the flexible operation under conditions of „turbulent changes in the environment”.

In practice, there may be different mutations of the mentioned relations between the public and the private sector. They are characterised by relevant internal and external features and conditions.

2. A model of partnership

Local authorities are interested in organising the provision of public services and their quality to the satisfaction of the local community. There are favourable conditions for the so-called universal mixed goods to be offered by both public and private sector entities. With a

full understanding of the importance of public services by the local political set-up, there is a mutually agreed clear division of service areas where different sectors can operate without unfair competition. Market consent has a positive effect on the targeted specialisation of the private sector in the provision of certain public services. This orientation is beneficial for local communities. An active attitude of public sector managers through market-oriented behaviour (openness to cooperation) supports the activity and development of the private sector. It is therefore the basis for planning a long-term presence on the public service market.

In partnership co-operation of both sectors in the sphere of public service delivery, the local political system based on democratic principles accepted by the society appears as a strategic element. The *consensus* is needed for the public good. The basic organisational and economic rules for the assumption of responsibility for the provision of specific public services by the private sector are established administratively or by the local government. The decisions in the area of implementation concessions and the rules and methods of financial settlements are the result of respecting the law on public procurement.

Due to the importance of public services and their vulnerability to community criticism, evaluations are periodically carried out by various bodies and institutions. The obtained results are used to make adjustments in public service delivery systems. The use of IT tools can allow for continued monitoring in terms of the quality of public services provided by the public and private sectors.

3. The model of competition using market mechanisms

The public sector and the private sector operate in autonomous arrangements. There are no concrete rules on how the two sectors can work together for the public good. There are instances of public sector entities entering private sector business areas, in which case signs of competition can be observed in the sectoral market segments. In cases where the private sector takes over certain areas of public services (e.g., health, education and training, municipal services, etc.) the provision of these services is linked to market mechanisms. The intention to maintain their positions in the public service market often leads to a price war, disorganisation in the provision of these services and increased dissatisfaction among local communities.

In practice, the emerging competition between the two sectors to maintain „prestige among local communities” focuses the parties on the outcome of the struggle, making the quality of public services recede into the background. The degree of dissatisfaction of the population with this state of affairs then increases, and attempts of intervention are made by regional and central bodies and institutions to. Disruption of public services can be due to purely political reasons. The preference for the private sector in taking over public sector tasks and the deliberate creation of distortions in the transfer of funds leads to sharp staff conflicts and mutual rivalry between the sectors. However, the exaggerated use of market mechanisms, as well as attempts by the government sector to intervene in the process of providing public services, most often lead to a decrease in the quality of goods/services offered and to sharp protests from the public.

4. The model for flexible operation in a turbulent environment

A turbulent environment can have a significant impact on the scope and form of public services provided by the public and private sectors and stimulate the search for new solutions, taking into account the achievements of other countries. The public sector is well developed, operates properly, is not willing to compete with the private sector, but is sometimes interested in its greater involvement for the common good. The private sector is interested in taking over some areas of economic activity by the public sector (mainly broadly understood infrastructure). It is capital intensive, its creation and maintenance would have to be charged to public institutions, the private sector would like to use these goods mainly for the implementation of its strategic goals.

The persistently high volatility in systemic solutions concerning the functioning of the state is not conducive to the improvement of processes involving the provision of public services. In the conditions of continuing economic and social reforms, when there is no precise definition of the scope of activity of the public sector (or even the concept of its restructuring) and no time limit for the normalisation of these matters, it is difficult to expect innovative solutions, increasing the quality of provided public services. The public sector is an area that is often used by political groups to pursue their agenda and to take over leadership positions. Such a strategy often leads to a loss of balance for the public sector or to profound changes in the functioning of that sector (even against the principles of the rational economy).

The public sector, whose functioning is justified by, inter alia, market failure, the existence of externalities in the economy and the existence of public goods, is characterised

by universality and non-commercial character. However, do these features of the public sector determine its inefficiency and mismanagement, which is so often associated with it? Will the concept of *public governance* and contemporary concepts of public management developing in Poland contribute to quality improvement in the public sector? The attempt to give a clear answer is difficult, both for theoretical and pragmatic reasons. The provision of public goods most often depends on access to e.g., natural resources, infrastructure, physical resources etc. There is the problem of the structure of ownership of property necessary for the broadly defined process of production and provision of public goods.

The stabilisation function and the allocation and redistribution function relate to the conditions of the economy, the allocation of the means of production, and the redistribution of the effects of production. The performance of these functions by the economic policy is aimed at eliminating the negative effects of economic distortions occurring during the operation of the market sector (thus eliminating market failures) and at achieving policy objectives by the government [*Fernandez-Blanco, Rodriguez-Alvarez, 2020, p. 79*].

It is important to answer the question about the potential possibility of reducing the sector's share in the economy and increasing the efficiency of public goods provision by taking over their provision by the private sector [Owsiak, 2020, p. 79]. In order to obtain a positive answer to a question formulated in this way, it is necessary to identify and precisely define groups of those public goods which should remain in the public sector (which is important for decision-makers in the government and local government sub-sectors). Full identification would also make it possible to determine the distribution of the market for public goods, i.e., to determine the package of public goods to be provided to the private sector (in return for payment or with public sector financing or co-financing).

Undoubtedly, the procedures for the selection of criteria by which the public goods market should be segmented are a strategic problem. The power of influence of recipients of public goods is small, from the point of view of those who provide them. Potentially, it does not and should not matter to recipients who is the provider of public goods. What matters is that the goods are delivered. The quality of the goods supplied is also important. For most public goods, the change of provider from the public to private should be at least neutral from the perspective of the potential consumer. Therefore, the assessment of the possibility of transmitting the provision of some public goods to the private sector from the point of view of the recipients' power of influence is positive. The power of influence of the main suppliers of public sector public goods is very high. The liberalisation process of the Polish economy, observed since 1989, points to the difficulties that need to be overcome for the public sector to

reduce its share in the economy. The prevailing view is: „what is not allowed is forbidden”, and that the public sector will not want to „give up the field without a fight”. Meanwhile, the process of liberalisation of economic activity should be based on the principle: „what is not prohibited is allowed”. These two opposing concepts of stimulating economic activity define a very different place and role for the public sector in the economy.

The possibility of new public goods emerging is not great. The structure of public goods is changing with economic development and the process of globalisation and the risks it entails. However, the increase in the number of new public goods is not large. The possibility of reducing the share of the public sector in the economy is very high from this point of view. The possibility of the emergence of new producers of public goods is linked to the growing competition between the public and private sectors. A threat to the public sector is the transformation, with economic growth and development, of some public goods into normal goods (e.g., property protection, education, health, etc.) This is due, among other things, to the poor quality of these public goods and the private sector taking advantage of this to enter areas hitherto reserved, mainly because of the low level of society's income, for the public sector. This factor will also be conducive to reducing the share of the public sector in the economy.

Competition within the public sector does not exist. Public sector entities do not compete with each other for customers but may compete for an area of activity and the associated public funding and power. Even if there are disputes between public sector bodies, they do not concern the process of delivering public goods. This may be a weakness of the public sector, as the attention of indirect beneficiaries (officials, politicians) is not focused on the essence of the matter, which is the provision of public goods. Therefore, from the point of view of competition within the public sector, there are no restrictions on reducing the sector's share in the economy.

Assessments of the possibility of reducing the share of the public sector in the economy formulated by many economists indicate that there are no significant barriers due to the nature of most public goods and the nature of the public goods market to making the change. The pragmatic dilemmas that emerge in relation to the criteria for dividing the market for public goods require particular support from theory. Challenges remain in a similar situation regarding the initiation of a process of change in the way the public sector operates and the timing of this change. Multi-directional analyses and problem-based studies are therefore needed.

The structure of public expenditure [Owsiak, 2020, p. 117] becomes an important factor in the analysis of the quality of the public sector (assuming that it is manifested by the effective and efficient performance of its functions and measured by the level of satisfaction of the recipients of goods and services of this sector). It may prove to be an important factor in making the public sector attractive to current and future investors. The elements of control and audit in the sphere of public finance and compliance with the public finance discipline are also important from this point of view. The quality of functions and tasks implemented by the public sector is determined by a number of factors, including the existing technical and social infrastructure, the quality of management at the government and local government level, regional and local conditions (including the existing development potential), the available instruments of the social and economic policy and directions of allocation of public funds).

The structure of public expenditures is an important element from the point of view of creating the quality of the public sector, mainly due to the possibility of increasing the quality of provided goods and services by financing investment outlays, e.g., on R&D, implementation of new technologies and concepts of the functioning of particular spheres of the public sector (health care, judiciary, education and others).

A particularly important group of expenditures are pro-development (investment) expenditures that create economic growth and improve the quality of the public sector by providing new solutions and concepts (e.g., financing *know-how*, new information and IT techniques, financing work on modern management concepts, etc.).

Changes in the environment and the ever-increasing pace of civilisational development make it necessary for the public sector to respond appropriately. Changes in the public sector itself may be brought about, *inter alia*, by an innovative approach expressed in a new definition of the state's responsibility for particular areas of public activity, both social and economic. A greater „economisation” of the public sector in relation to both social goods and public goods *sensu stricto* is necessary [Owsiak, 2020, p. 221].

Conclusion

The efficient and effective functioning of the public sector, both in Poland and worldwide, directly influences building social welfare. The role played by the public sector in the economy and social division of labour significantly determines the necessity of maintaining high effectiveness and rationality of its operation. Economic practice indicates

the occurrence of irregularities in many areas statutorily assigned to the jurisdiction of public sector entities.

The existing dysfunctions in the process of implementation of tasks entrusted to public sector entities and the accompanying drop in social satisfaction indicate the necessity to look for new solutions allowing for achieving high effectiveness and efficiency while performing tasks of a general social character.

Increasingly, management and quality issues in the public sector are being analysed as ones that can contribute effectively and in the long term to the sustainability of the sector and allow it to carry out its public functions efficiently and rationally under the given conditions.

The observation of changes in the public sector made through the prism of the state of civilisation and the foreseeable directions of development provide the basis for the formulation of a fundamental thesis: the public sector must undergo intensive and also revolutionary changes. The direction of these changes is determined by specific theses:

- 1) the public sector will be progressively reduced as it is currently a ballast for economic and social development,
- 2) the public sector needs to be modernised because of its rules on resource management and the way in which its entities are managed,
- 3) the activities of public sector entities will be „economised” and their management will be enriched by assessment criteria used in the private sector,
- 4) the public sector should become more autonomous in relation to the fiscal policy pursued by the state; implementation of innovative solutions in the public sector requires a stable level of funding,
- 5) the public sector will cooperate with the private sector to a greater extent than before, inter alia, in the development of infrastructure.

The coming years will be an important period for verifying the assumptions and directions of restructuring the public sector in Poland and for generating scenarios for effective cooperation with the private sector.

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