

# Why can't government be run on the same principles that guide private business?

A successful corporate executive who left private industry to accept a presidential appointment to a high-level position in the federal government said after his Washington tour, "Business and government are alike in all unimportant ways."

Certainly, public officials should bring sound business principles to their policymaking responsibilities. Productivity, financial and accounting controls, economic incentives for performance and a management reporting system that can be verified against accepted and understood standards are as essential to good government as they are to good business.

However, while the public has the right to expect bureaucrats to respond to citizens in the same way a good businessman responds to his customers, the analogy between business management and public administration is frequently a limited one.

In business, the basic organizational goals are set by the board of directors. In government, they are set by the general public: the "board of directors" consists of all the employees, customers and competitors.

In business, the application of resources tends to be narrow, with a trend toward specialization. Limited menu restaurants reflect the modern trend of applying the significant financial resources to a narrowly defined product. Conversely, in government, shrinking financial resources must be stretched to meet an ever-increasing public demand for services.

In private business, the organizational structure of a company is determined internally and generally can be altered by the executives responsible for its administration. The basic organizational structure in government is determined by external factors, both political and social, that affect policy decision-making. These may include

the fundamental documents of democracy, such as a constitution or charter; another level of government, or perhaps a regulatory authority.

In business, many different ways are available to motivate people. Employee compensation, including financial incentives for performance, reflects significant differences between the public and private sectors. While the salaries of public employees have been increasing to a level comparable to private industry, the public sector

does not have the variety of compensation tools available to business. Stock options and similar incentives allow for the accumulation of wealth if the organization is successful.

Within certain competitive limits, business can pass on manufacturing and labor cost increases to the consumer through higher prices. The trend in government is the opposite. Proposition 13, for example, severely

limits local government's ability to expand the revenue base, even when faced with record-setting inflation.

In business, the ability to change one's mind when the facts or conditions dictate a change is an accepted--indeed, an expected response. In government it is a risk of considerable significance. Politicians who change their minds, regardless of the reason, are frequently considered to be inconsistent and indecisive. Mistakes, reported in the press, lead some officials to adopt a gun-shy style of administration.

Communication responsibilities are made more onerous in the public sector. The recent popularity of "sunshine laws"--all government

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business, except legal and personnel matters, must be conducted in public--has had a significant effect on government operations. While they are designed to insure that the public's business will be conducted in the open, they have had a tendency to diminish the ability of a public agency to plan effectively.

Many politicians argue that "sunshine laws" restrict candor in debate and discourage the "brainstorming" of ideas among public officials. Because of this "fishbowl" environment, productivity and performance are more visible in the public sector. Bureaucrats rarely have the luxury of leaving their mistakes in the obscurity of the full-security R&D laboratory.

In the classic economic sense, sales in private business are directly related to consumer demand. Profits are based on the overall performance and productivity of the business enterprise. Conversely, public demand for many government services is the greatest during difficult economic periods when tax revenues are the lowest.

The logical business-oriented response to this economic disparity would be for

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government to create surpluses during good times to meet the expanding demand for services when the economy turns down. California Governor Jerry Brown attempted to apply this age-old philosophy of "saving for a rainy day," only to have Howard Jarvis\*refer to the state budget surplus as "obscene."

Historically, there has been a resistance to measure performance in the public sector. As a consequence, there remains a dearth of comparative standards in public administration and management. Productivity and performance are evaluated in the private sector by traditional standards: sales, profits, costs of goods sold, inventory turnover and so on. Government has less control over its environment, often reacting to the initiatives of others or the political climate of the times, producing a continuous process of management by crisis.

It would be easy to conclude that government should simply apply the successful techniques of the private sector more often. I think more is at stake.

Public officials will have to become risk-takers--ready to establish quantifiable performance standards and willing to be held accountable for meeting those standards. We cannot avoid making difficult decisions for fear of critical headlines or adverse political consequences.

And the public sector will have to discontinue its preoccupation with "the process" and concentrate on results, providing quality service to the people in the most efficient and cost-efficient manner available.

These notions present a serious challenge, but they have served private industry well.

NOTE: This article has been reprinted from Nation's Cities Weekly. The author is Lawrence E. Stone, mayor of Sunnyvale, California. Mayor Stone holds an MBA degree from the University of Washington's Graduate School of Business. □

\*Jarvis was the principal sponsor of California's  
Proposition 13