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COMPETITION DYNAMICS AND NEW MANAGEMENT PARADIGMS IN THE PUBLIC SECTOR

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Abstract

The paper provides a comprehensive exploration of the role of competition in the public sector, defining its multifaceted dynamics. It highlights the intensified competition between producers of public and private goods, as well as competition among entities producing different categories of public goods in various industries and diverse sectors, such as education, healthcare, and legal services. Transitioning to the new management paradigm within the public sector, the text underscores the profound transformations triggered by the shift to a market economy. Benchmarking, public-private partnership and outsourcing are considered, underlining the need for a well-defined methodology and the commitment to international standards. This approach is essential for providing high-quality public goods and services in a globally competitive environment.

Keywords: *competition; public sector; new management; public-private partnership benchmarking; outsorcing*
JEL Codes: *H44, H00, D40, O16, G30*

Introduction

The penetration of market-oriented dynamics and the incorporation of market-oriented principles within the public sector is a consequence of budgetary and institutional provisions. This integration is facilitated through the application of competitive models aimed at enhancing the effectiveness and efficiency of public resource utilization.

The development and implementation of robust economic and market institutions, such as competition, demand, and supply, entail several key considerations:

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• Division of Regulatory and Production Functions: This involves an allocation of the state's roles concerning the provision of public goods, specifically separating regulatory functions from production responsibilities.

• Segregation of Institutional Consumers and Producers: A clear demarcation is established between institutional consumers of public goods and the entities responsible for their production.

• Determination of Financing and Production Parameters: The volume and structure of financing and production of public goods are determined based on an optimal balance between economization and humanism, and the economic efficiency and social justice considerations. This involves establishing an equilibrium that maximizes resource utilization while upholding ethical and societal principles.

The paper aims to reveal the major “conduits” creating the implementation of market principles within the public sphere, suitably denominated as "new management." These “conduits” encompass public-private partnerships, outsourcing, benchmarking, and clustering within the public sector. Numerous Bulgarian authors, including Hr. Hristov, P. Lulanski, D. Brusarski, E. Delcheva, St. Stavrev, P. Mitev, have made noteworthy contributions to the exploration and development of these relevant issues.

The Role of Institutions in Shaping Public Sector Dynamics

Competition represents a foundational institution in societies characterized by market-regulated economic exchanges, serving as an imperative for the optimal functioning of the market and the fulfillment of its inherent roles. It manifests as a form of rivalry, emerging when multiple economic entities endeavor to secure property rights over resources with the aim of maximizing their respective benefits. According to M. Porter in order to achieve a competitive success the companies must possess a competitive advantage in the form of lower costs or differentiated products imposing higher prices. (Porter, 2004) However, the size of a company's competitive advantage is the difference between the economic value that the company makes and that of its rivals. (Barney and Hesterly, 2006,)

The genesis of competition lies in economic coercion within modern societies, where each market participant, including the state as a producer of public goods, endeavors to offer to the desires and necessities of consumers. According to R. Dimitrova (Dimitrova, 2013), a factor of major importance is the analysis and evaluation of the competitive potential of the enterprise as a prerequisite for discovering possibilities towards increasing its competitiveness and future development. The competitive potential of the enterprise is seen as its integrated potential. Competitive advantage can be obtained only if a business system creates superior value for buyers. A company must be able to provide a more suitable product or service for customers than those produced by rival companies. The activities that bring value, such as manufacturing, logistics, marketing and sales are generically called chain of values (De Wit and Meyer, 2004).

In this context, the market institution transforms individual actions of economic agents into economically oriented activities—specifically, the production and provision of public goods aligned with both personal and communal needs. Within the notion of competitive dynamics, the determination of the "rules of the game" holds dominant significance, and unequivocally, it is the state that assumes this responsibility.

A distinctive feature of competitive relationships within the public sector is the constant involvement of a public institution—either at the state or municipal level. The integrity of contracts, particularly those associated with public-private partnerships and outsourcing arrangements, as well as the protection of property rights for involved parties, necessitates cautious oversight and safeguarding by the state. Functioning as a custodian, the state ensures the preservation of the competitive order through the establishment of pertinent institutions, organizational frameworks, and the imposition of sanctions in instances of rule non-compliance.

The competitive environment is the next immanent characteristic of the public sector. Constituting a complex system of transactions, it intricately involves market agents such as producers, intermediaries, and consumers in the exchange of public goods. Innovation is one of the most important sources of competitive advantage and for most organizations it is a process of continous improvement. They offer the same service, but with the help of creative reengineering supported through investments, they add to the product or service certain value generating elements. (Popa & Dobrin 2011)

The state actively engages in shaping the competitive environment, assuming a direct role across the phases of goods production, distribution, and consumption. Simultaneously, it is the state entities to establish and cultivate the institutional framework supporting this competitive landscape.The main objective guiding the operationalization and evolution of the competitive environment is the growth of the general level of national economic competitiveness. This pursuit is clarified by diverse metrics, as exemplified in the Global Competitiveness Index. This comprehensive index serves as a barometer, directly mirroring both quantitative and qualitative sides of public sector development. Parameters encompassing education, qualifications, institutional maturation, and the health status are among the indicators analyzed within the context of this index, thereby providing empirical insights into the multifaceted dimensions of the public sector's developmental trajectory.

In the domain of the public sector, a suitable characterization emerges as a 'quasi-competitive' environment. Within this paradigm, 'quasi-markets' manifest as complicated systems of interactions among economic entities competing to provide public goods, the production of which is subsidized by governmental entities. While real-world manifestations of 'quasi-markets' may exhibit differences owing to institutional and industry-specific characteristics, such as those observed in education, healthcare, and the judicial system. They collectively embody a framework where producers engage in competitive dynamics under public financing. According to Rinkova (Rinkova, 2013), the development of the "quasimarkets" structures in the public sector is an opportunity for the penetration of market relations and the formation of competitive behavior of the economic agents. These processes are conditions to improve the efficiency and the quality of the public goods.

An inherent feature of quasi-market public goods lies in the prevalence of information asymmetry, designating some as 'trust assets.' Consequently, the State formulates and implements monitoring and control mechanisms, along with accreditation or licensing protocols for organizations engaged in the production of these public goods. This strategic intervention of the State aims to restrict the potential for opportunistic behavior among entities contributing to public goods.

The establishment of quasi-market structures necessitates consideration of the institutional details distinctive to the various branches of the public sector. This highlights the importance of modifying the formation of these quasi-market structures in alignment with the unique features characterizing each sector, thereby contributing to the efficacy and integrity of the overall quasi-competitive environment within the public sphere.

Competitive Dynamics and Resource Allocation in the Public Sector

Public sector entities and governmental departments are established with the primary purpose of fulfilling government responsibilities, and they are anticipated to collaborate in both policy formulation and service delivery. Within Western societies, public agencies are created in order to rectify market failures, aiming to persist in their operations to enhance the collective welfare. In the context of public sector their function additionally encompasses contributing to industrial development and the establishment of markets. (Matthews & Shulman, 2005) A fundamental tenet of agency theory suggests that individuals in positions of resource control tend to prioritize their own interests over the interests of the resource owners (Stewart, 1999). Conversely, public sector organizations are established with the overarching objective of formulating and delivering services for the betterment of the general populace.

When applying the reproductive approach to examine the trajectory of products within the public sector, distinct levels of competitive relationships with various actors and subject determinations could be distinguished.

Firstly, there exists a competition dynamic between producers of public and private goods, which revolves around the optimal allocation of resources between these two sectors. The methodological apparatus employed for this analysis leverages the concept of the production possibilities frontier. Within any given timeframe, society challenges an alternative decision, necessitating the allocation of limited public resources across public and private sectors. In the production of private goods, requisite resources are acquired by firms through transactions in factor markets, where prevailing market prices serve as the determinants of resource acquisition.

As far as the production of public goods is concerned, the primary source of financial resources is taxes. Serving as a mechanism for the redistribution of primary income, taxes empower public administration to make crucial decisions relating to the allocation of resources for public goods production, concerning the quantity, methodology, and beneficiaries of public goods. The public choice on whether to channel more resources into private goods production or enlarge the tax burden for increased public goods production lacks a definitive answer and is contingent upon the prevailing political circumstances in the state.

Secondly, competition emerges among producers engaged in the creation of distinct categories of public goods, competing for allocated resources. Diverse forms of material, labor, and financial resources are employed in the production of various public goods, encompassing sectors such as education, health, social and legal services, and others. This competition extends beyond inter-institutional dynamics, encapsulating contests within each sector of the public domain. For instance, competition exists to secure more resources within specific branches of the public sector, such as the rivalry between different educational levels—secondary and higher education—or the contest for resources between pre-hospital and hospital healthcare services. The state as an institutional authority, assumes responsibility for producing public goods crucial to national security, notably categorized as pure public goods.

The contemporary landscape is marked by intensified competition among providers of both public and private goods across diverse industries. Alternative market structures, such as private enterprises, municipal entities, and state-operated educational institutions, actively engage in the education sector from the supply side, rivaling for consumers of their respective services. This competitive dynamic is mirrored in the healthcare sector, where various entities operate within a comparable framework. Analogously, within the legal services domain, competition exists among private and state-appointed bailiffs, as well as private and state-affiliated notaries, illustrating the persistent nature of this competitive paradigm

The rivalry among consumers of public goods across distinct territorial entities is prominently evident, notably in higher education. Various universities engage in robust competition, particularly in metropolitan areas where multiple institutions contest for individuals seeking their educational services. This competitive dynamic is similarly manifested in clinical and hospital structures, where entities strive to attract users. However, the uneven distribution of these public goods across different regions poses challenges, impeding equitable access for all citizens and thereby intruding their constitutional rights. To correct these inequalities, the state may intervene through appropriate market and administrative regulations, thereby addressing these perceived "market defects" and "state defects" and ensuring more balanced and accessible provision of public goods.

New Management in the evolving Public Sector landscape

The transition to a market economy has activated profound transformations in both the economic foundations and institutional framework of the public sector. These changes are conspicuously evident in the reconfiguration of property relations, accompanied by alterations in the organizational and managerial structures within the public sector. A paradigm shift is observed through the adoption of "new management" principles, signifying the invasion of market-oriented relations at both micro and macro levels.

As explained by J. Brown, "new management" constitutes a system of market-oriented approaches to the administration of institutions and allocation of resources within the public sector (Brown, 1998). This necessitates a radical change from traditional bureaucratic management practices, calling for adaptation and competition. Consequently, the "new management" is suitably characterized as a "quasi-market" management approach, reflecting its distinctive blend of market-oriented strategies applied within the public sector context.

Public-private partnership (PPP) represents a transformative approach to ownership relations and stands as a promising tool of collaboration between the public and private sectors (Law on Public-Private-Partnership, 2023). According to Professor Hr. Hristov (Hristov, 2005), PPP requires an interaction between state and municipal institutions on one side and private sector enterprises on the other, strategically designed to improve the management of public infrastructure, municipal facilities, and the delivery of relevant public services.

The reasons for establishing these partnerships varies, but generally they include considerations such as financing, design, construction, operation, and maintenance of public assets, as well as the provision of public services. The institutional foundation of PPP has been firmly established with the enactment of the Law on PPP since 2013. This partnership is rooted in the recognition that both the public and private sectors possess distinctive attributes, affording them advantages in specific aspects of the production and provision of public goods.

PPP manifests in various forms, each tailored to the specificities of different industries and types of goods. Examples include the exploitation and servicing of publicly owned objects, the design and construction of objects, and comprehensive involvement in the design, construction, and operation of objects, among other configurations. The complex nature of PPP reflects its adaptability to diverse sectors and underscores its potential as a dynamic mechanism for addressing complex challenges in the sphere of public infrastructure and services.

The basic economic argument in favor of outsourcing is that it introduces competition and utilizes the strengths of the private sector. There is a concern, however, that outsourcing could lower service quality. The reason is that private for-profit providers have strong incentives to reduce costs but possess limited motivations to enhance aspects of quality that are challenging to specify or codify within contractual agreements (Hart & Shleifer, 1997). Outsourcing, as expressed by Professor M. Hariznova (Hariznova, 2001), exemplifies a contemporary business practice wherein an organization delegates internal activities and processes to external consultants or service providers. This entails the transfer of business functions and related assets to an external specialist for a specified duration at a mutually agreed competitive price.

The primary impetus for entering into outsourcing contracts lies in the reciprocal benefits accrued by both parties—the public organization and the service provider. The objectives of the company outsourcing include reducing staff maintenance costs, lowering service prices, and improving the quality of the core service. Brian J. Heywood (Heywood, 2001) clarifies how outsourcing, if handled correctly, has the potential to produce real tangible saving for all types of organisations, not just large ones. He also explains how outsourcing arrangements can be unsuccessful and what customers and service providers should do to limit their risks of failure.

The engagement of public organizations in commercially-oriented outsourcing, facilitated by external contractors through contractual agreements, involves both benefits and risks. Public organizations, when engaging in commercial outsourcing, often contract external entities for services such as hygienic maintenance of offices, upkeep of information and copying equipment, security services, printing, street lighting, and others. In the educational sector, outsourcing extends to non-core activities and functions, including security, hygiene, computer services, legal and notary services, practical training, repairs, construction activities, and beyond.

Positioned as a strategic business management approach and an anti-crisis measure, outsourcing emerges as an alternative for the efficient development and utilization of limited resources while ensuring the provision of quality public goods. In specific cases, outsourcing relationships between specialized organizations serve as essential devices of interaction within cluster organizations, thus representing a qualitatively new paradigm of business organization during the era of the information society and knowledge economy.

A fundamental determinant for entities within the public sector relates to their competitive standing. For numerous organizations, competition goes beyond national boundaries and extends to supranational; European, and global domains—examples include universities and healthcare facilities. The primary objective for such entities is to attain international standards in the provision of public goods. Rigorous and constant assessment and comparison of distinct business processes or sets of activities with benchmark organizations, both nationally and internationally, form the foundational framework for improving and optimizing the operational efficacy of the entity (municipality, school, hospital).

The utilization of a benchmarking system, wherein an entity measures its performance against industry leaders, serves not only as a technological tool for competitive analysis but also embodies a conceptual framework that signifies an aspiration and motivation for perpetual development and improvement. This competitive approach follows a methodological trajectory characterized by distinct stages— planning, the identification of leading practices and benchmarks, continuous monitoring, analysis, and eventual adaptation. All these stages are interrelated, they require preliminary preparation and highly professional qualities to effectively incorporate the practices of benchmark organizations into the the public structure.

Conclusion

The competitive relationships within the public sector are characterized by the constant involvement of public institutions, necessitating careful oversight to ensure the integrity of contracts, property rights, and competitive order. The quasi-competitive environment, particularly in the context of quasi-markets, underscores the complex interactions among economic entities striving to provide public goods subsidized by governmental entities. The competitive dynamics within the public sector triggers the competition between producers of public and private goods, as well as the intra-sectoral competition among entities producing different categories of public goods.

The adoption of "new management" principles, characterized by market-oriented approaches, signifies a departure from traditional bureaucratic practices, fostering adaptation and competition. Public-private partnerships and outsourcing emerge as transformative tools, fostering collaboration between the public and private sectors for improved infrastructure management and the delivery of public services. Benchmarking is a strategic approach for entities within the public sector to enhance their competitive standing. The process of benchmarking involves planning, identifying leading practices, continuous monitoring, analysis, and eventual adaptation. This systematic and continual improvement process is depicted as not only a technological tool for competitive analysis but also as a conceptual framework embodying an aspiration for perpetual development and improvement within the public sector.

Altering the economic paradigm of public sector management is rooted in the doctrines of institutional economic theory. This transformation is facilitated through the application of management tools and practices derived from the private sector, emphasizing a commitment to strict financial discipline and the judicious utilization of public resources.

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