

Entrepreneurship and the Public Sector

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ABSTRACT

The success and prosperity of the U.S. (or any country for that matter) is directly tied to the performance of its private, social, and public sectors, separately and in combination. The quality of performance, in turn, is influenced by organizational culture and worker education and training. This paper provides a background analysis which describes the private sector entrepreneurial organizational culture and discusses aspects of this culture that may be transferable to the public -- government--sector. Government is looking increasingly at business methods and goals for approaches to innovation to achieve greater efficiency and improved performance. A Clinton Administration initiative is used as an example of such an effort. The U.S. federal continuing education system can play a critical role in furthering these developments.

INTRODUCTION

National economies may be thought of as being composed of three major sectors: the private sector, the social or non-profit sector, and the public or government sector. Because of their extreme mutual dependencies, the combined effectiveness of these three sectors significantly determines a country's performance and thereby its standard of living and its status and role as a nation within the global community. It stands to reason that a country weak in one or more of these sectors is likely underachieving, at least to some degree. In addition, a weak sector can be a drag on one and likely both of the other sectors. For example, a weak private sector may generate lower incomes, and lower incomes may yield less tax collections for government and likely fewer charitable contributions for the non-profit sector. Also, a weak government or public sector may impose higher than necessary tax rates thus depriving the private sector of income available for consumption and saving.

Being promoted as more than civil service reform, the reinvention of government was the mission of the Clinton Administration's National Partnership for Reinventing Government (NPR)(1) According to Administration officials, the origin of the NPR movement was found essentially in the combination of two events: 1) the performance of the private sector was continuously improving while 2) the performance of the public sector was continuously deteriorating.(2) This "performance gap" was to be narrowed by the Administration pursuing four major reform themes: "cutting red tape," "putting customers first," "empowering employees to get results," and "cutting back to basics." Schachter describes the private or business focus of the Administration's initiative as calling upon "Administrators. . . to give citizens the same responsiveness and consideration businesses supposedly give customers.(3) The at least theoretical goal was to have government agencies achieve customer service levels ". . . equal to the best the private sector has to offer.(4) The strategy of the Clinton Administration's reform movement was to improve public agency performance and taxpayer satisfaction through government employee generated innovation. At the core of this initiative was "benchmarking" service levels of public institutions with private businesses. As examples, when citizens visit the post office, they expect the same kind of service they get at UPS or Federal Express: quick, efficient, courteous. Also, when they call the IRS, they expect to be treated as they would be when calling their local banker or accountant.

In addition to its supporting role, the government sector has important and unique functions and responsibilities of its own. While social organizations can help and have their role, perhaps nowhere are the idea generating abilities of the innovation process needed more than in the public sector addressing such critical public problems as health care, education, poverty, crime, homelessness, hunger, among so many others. These challenges are in desperate need of new and innovative approaches. Peter Drucker argues that "Public-service institutions such as government agencies . . . need to be entrepreneurial and innovative fully as much as any business does. Indeed, they may need it more.(5)

This paper describes the private sector entrepreneurial, innovation process and suggests how important aspects of this process may be transferable to the public sector. The primary purpose of this paper is to look at the potential role of innovation, based on the private sector model, in improving the performance of the public sector.

Innovation and the Public Sector

Unlike in the private sector, innovation as a means to improve organizational performance doesn't come naturally to the public sector. There are many attributes of the public sector which serve as "innovation inhibitors." Operational and organizational differences between public and private sector institutions are extensive. While several descriptive models have been developed, the essential difference is market versus political orientation.(6) The mission and purpose of the public sector agency or program, for example, is imposed from outside through political forces while the missions of business organizations generally originate from and are dictated by free market economic signals. Public agency missions and operations are also influenced by political philosophies and political philosophies can change dramatically from one election to another and it is often difficult to shield public employees from undue political influence. Markets cause disruptions too of course, but usually not of the politically partisan nature. In addition, there is no natural mechanism such as the pursuit of profit in the public sector to align the incentives of civil service employees with those of the elected political leaders. While job retention may be an important goal of many federal employees, it is not in the form associated with the methods and immediacy of "getting re-elected." Incentives common in the private sector such as profit sharing and stock options, are not available to employees in the public sector. While the possibility of privatization of a public service function can be a stimulant to improve service, government usually is in a monopoly position, so there is insufficient competition to force a high level of service performance. More typically, public agency performance is influenced by employee work ethic, professional competence, and the amount of politically provided resources. In government there is no profit motive, making "bottom lines" difficult to discern. The output of government is frequently difficult to measure in terms of quantity or quality, making agency performance difficult to evaluate. In many cases, federal programs continue to operate even after the accomplishment of their mission or the solving of the problem which served as the justification for creating the program in the first place. Businesses failing to achieve their profit goals, on the other hand, go bankrupt.

While each business in the private sector is essentially free to establish its own culture and management system, this is more difficult with public service agencies. Public agencies are regulated by a civil service system which is typically complex, formalized, and risk-averse. Also, management/labor rules and relations are usually set and overseen by an external agency such as a civil service commission. Drucker summed it up this way:

. . . public-service institutions find it far more difficult to innovate than even the most "bureaucratic" company.... To be sure, every service institution likes to get bigger. In the absence of a profit test, size is the one criterion of success for a service institution, and growth a goal in itself. And then, of course, there is always so much more that needs to be done. But stopping what has "always been done" and doing something new are equally anathema to service institutions, or at least excruciatingly painful to them (7).

Thus, it is more difficult for the U.S. government to be change-receptive, innovative, creative, idea- and knowledge-driven in its approach and methods to accomplishing its delegated mission in American society. The question arises, are any of the innovation and entrepreneurial practices and tools used so successfully by the private sector to reach higher and higher productivity and consumer satisfaction levels, transferable, relevant, or even appropriate to the public sector? Just a few of the more obvious quandaries: Who can/should innovate? What's the reward/penalty for successful/failed innovation and to whom and how is that reward/penalty paid? Is the organizational culture of the federal government conducive to innovation? What's the role of politics in public sector innovation?

According to several external evaluations, the traditional rule-bound, complicated, and inflexible government personnel system has not been conducive to innovation in the public sector; this has led to the development of an extensive literature on the topic and numerous "reform" movements and models.(8) The more familiar models of reform include planning program budgeting (PPB), management by objectives (MBO), zero-based budgeting (ZBB), the federal Senior Executive Service, changing the laws governing public personnel management and, of course, deregulation and privatization. Currently, attention is being given to reform methods which attempt to transfer business

practices to the public sector, particularly in the areas of task and authority delegation and employee hiring, firing, education and training, motivation, incentives, and accountability. Reform models are also being promoted which focus on change management, a customer-driven process, and "bottom-up" employee empowerment with flattened hierarchies.

The Clinton Administration's National Partnership for Reinventing Government was innovation based. For example, during the 1994 -1999 period 350 "Reinvention Labs" were created throughout government to pilot innovations and new ways of doing the government's business. NPR also claimed that 4,000 customer service standards were put in place; 850 labor-management councils created; 640,000 pages of internal rules eliminated; \$137 billion in savings realized, along with a reduction in the federal workforce of 351,000, and 250 fewer federal programs/agencies, among other accomplishments.

NPR results were achieved using a variety of "tools".(9) These tools included customer surveys, new management techniques, an improved federal government communications network, better government procurement procedures, the use of benchmarking techniques, and performance measurement.

NPR also saw "training" as a tool of government reinvention, but only in the sense of encouraging and facilitating federal workers to take advantage of existing federal continuing education programs and curriculum. Apparently the NPR initiative did not evaluate or challenge the curriculum of the federal continuing education system relative to its role in improving the performance of government.

Some warn of a "dark side" to the promotion of innovation as a performance enhancing technique in government (10). They see this initiative as just the most recent reform fad and even contend that some anti-government types promote innovation not to improve government performance but rather to reduce the size of the public sector - they simply want government to go away. Besides, some argue, innovation brings with it a certain degree of risk and therefore chance of failure, and the cost of failure at this level and magnitude of experimentation can be disastrous for the public. Other experts take yet a different angle and question the fundamental notion that civil servants as well as elected officials have any legitimate role to play as public innovators. As Altshuler asks "Why should elected officials, who have the most to lose when innovations fail, take the risk of encouraging civil servants to devise them?"(11)

This suggests a dilemma: Innovation may be necessary to improve the performance of the public sector but the cost of innovation failure is oftentimes perceived to be too high. The safe choice usually is to do nothing, or at least take no new non-risk free initiative. By and large, the introduction of truly significant innovations has OCCURRED very slowly in the public sector. In the meantime of course, innovation-even radical innovation-in the private sector has become not only accepted and necessary, but commonplace.

Education has played a critical facilitating role in the process of innovation and economic progress.¹² One thing seems certain: education must be at the core of any comprehensive and lasting civil service reform. And if entrepreneurship and innovation are to become part of the civil service culture, they will need to be taught and learned.

The Entrepreneurial Organization: Implications for the Public Sector

Some believe that the public sector could benefit greatly from more innovative approaches and activities. If American citizens including their elected public officials desire greater innovative activity from their public employees and institutions, an understanding of the culture of innovation and the motivational psychology of innovators is necessary. This institutional culture and individual psychology comprises the entrepreneurial organization.

Perhaps the first important lesson to be learned is that one of the most prevalent avenues of innovation is the entrepreneurial employee working in an entrepreneurial organization. Creating an entrepreneurial organization is a most challenging task, even for the private sector. Public institutions, like private companies desiring to create an innovation culture may pursue a variety of entrepreneurial management strategies, such as the following examples:(13)

Finding and hiring workers who demonstrate entrepreneurial behaviors. Not all workers have the interest or inclination to be entrepreneurial and innovative. Also, not all jobs require entrepreneurial skills or attitudes. In addition to traditional skill and personality testing, companies must create opportunities which will reveal which employees have entrepreneurial desires and talents. Once identified, these employees need to be "tracked."

An entrepreneurial employee track. Every successful, high-growth company has an entrepreneurial "training track" or something like it as part of its culture and long-term competitive strategy. Being innovative within the organization

may be thought of as essentially being entrepreneurial with a safety net - the safety net being a salary. A public entrepreneurial track would need to have learning opportunities for employees in the art and science of in-government innovation. Inhouse education courses can be supplemented with appropriate external continuing education programs and activities which may be provided by either public or private training institutions. Employees in this entrepreneurial track would be given the authority, autonomy, time, resources, and management support to identify, screen, propose, and (perhaps) implement potential approaches to improving agency performance. In some cases, these proposed new approaches might amount to simply more efficient processes or procedures for accomplishing routine tasks. In other cases, they could be much grander in scale, involving changes in organizational structure, lines of authority, financial procedures, program structure or operation, contracting arrangements, and so on.' In most of the simpler cases, the proposed new approaches likely could be implemented at the "agency level once approved. The more involved proposed changes could require legislation to change program structures, or provide budgetary authorizations or appropriations.

Monetary compensation. By definition, people with entrepreneurial abilities are bright, informed, and very proactive. They know and value their worth, in and outside of the public sector. While a competitive base salary is important to them, they likely place greater value on opportunities associated with incentive schemes like commissions and bonuses. Agency and individual performance measures and goals and associated rewards are critical if innovative behavior is to be encouraged within the public sector. A compensation scheme which provides a better "connect" between monetary rewards and job performance would need to be developed.

Communicating the agency's mission and vision. It's critical that the entrepreneurial public employee "buy into" the mission and vision of the agency and clearly see his/her role in contributing to the accomplishment of that mission and vision. This type of employee needs to achieve and move on to the next challenge. Commitment comes with being a stakeholder and part of the solution.

Obsolescence mentality. Skill, product, and process obsolescence goes hand-in-glove with rapid growth and innovation in the private sector. If government is working and accomplishing goals, public agencies, policies, programs, and employee skills should be evolving as well. A public agency not efficiently serving its mandated mission (or whose mission is accomplished or no longer important to society) should expect to become obsolete as well. A public agency, like a private company, must also anticipate that the skills of its workforce will become obsolete. Such a dynamic and challenging work environment requires a comprehensive and easily accessible continuing education program.

Psychic income. The entrepreneurial manager-public or private--is conscious of the need to find means and methods to compensate employees beyond the traditional monetary rewards. An attractive compensation package for today's entrepreneurial worker must include "psychic income." In the present context, psychic income is the non-monetary compensation or satisfaction one receives from employment. Research has revealed that the psychic income that entrepreneurs "earn" from employing themselves in new venture creation to be extremely important when evaluating their overall level of "job" satisfaction. That is, the reasons entrepreneurs "do what they do" are much more far reaching than the stereotypical "for profit and power."

One would suspect that employees with entrepreneurial behavior patterns, even those employed in the public sector, might respond to incentives similar to those that elicit responses from entrepreneurs. While there is considerable anecdotal evidence suggesting less than a strong relationship between employee earnings and employee innovativeness (e.g., teachers versus medical doctors), certainly monetary compensation, including supplemental rewards such as profit sharing or bonuses, would be near the top of the list. But perhaps of significant importance to the employee - as they are to the entrepreneur - are those incentives associated with the non-monetary rewards of psychic income. The literature is rich with explanations relative to "why entrepreneurs do what they do" beyond the incentives of income and wealth. (14) The literature provides little analysis and insight, however, relative to the appropriateness of using entrepreneurial incentives in devising employee incentives. (15) Nonetheless, employees as entrepreneurs, perhaps even public employees as entrepreneurs, might be expected to get job psychic income from an organization which allows one to personally create and explore new ideas and to set new agency performance standards and thereby perhaps establish a reputation and even a legacy. Association with the organization itself should elicit pride in its employees; ideally such

an organization would be composed of workers with similar passions and levels of commitment, including a desire to help bring a vision or dream to reality and to do "something important" by adding value to peoples lives.

A fun, creative, and safe place to work and take risks. The process of internal idea generation is an important source of innovation, new products, processes, technology, knowledge, etc. As such, this process can be the engine of organizational growth. Generally speaking, the more ideas the better. Idea generation is first and foremost a creative act and the key to creativity is inter-personal synergism. Simply put, the idea output or productivity of two people interacting often is many fold higher than an individual acting and thinking alone. Add a third person and idea output can rise exponentially. In the art and science of idea generation, the whole is substantially larger than the sum of the parts. This problem-solving strategy, which requires creative people, would be applicable to the public sector.

Indeed, according to Kao, competition for exceptionally creative people is now a fundamental, unavoidable, do-or-die, and very expensive factor of doing business.(16) A company with little or no in-house creativity has four ways to get what it needs: It can buy and attach to the organizational structure an innovative company; secondly, it can form a strategic alliance or partner with a creative company; third it can recruit and hire creative people; or fourth it can "grow it's own" through a process of intrapreneurial- employees performing entrepreneurially - selection and tracking. Government may use some of these strategies to obtain its problem solving creativity.

Ideas are fragile and nothing stops the idea generation process faster than unwarranted criticism, ridicule, and fear of failure. As in the private sector, one might expect public employee creativity to be stifled when ideas are shared and met with such "killer phrases" as "It'll never fly," "Don't rock the boat," "We tried that before," "Because I said so!," and, of course, the ever-popular "Give me a memo on that." The entrepreneurial culture, on the other hand, rewards employees for suggesting, trying, experimenting, creating, and developing regardless of the area or turf.

In addition to the above management strategies, the nurturing, entrepreneurial organizational culture would have a number of other evident attributes. First, fun would be an important part of work. Also, the organization must be creativity and idea "safe" and provide to selected employees time and space for creativity where people are encouraged to "think outside the box." Such an organization will also encourage continuing education, be future oriented, and welcome continuous evaluation. Public sector agencies may find these useful as well in their efforts to create an innovation-friendly culture.

No matter how entrepreneurially nurturing an organizational culture may be, not all employees are or can be expected to be entrepreneurial in talent or behavior. In fact, being entrepreneurial in jobs which require routinization may be detrimental to the organization. Pinchot in his book *Intrapreneuring* provides a list of ten intrapreneurial attributes.(17) A number of these and other attributes may be applicable to employees working in the public sector. For example, it is important for the entrepreneurial employee to be motivated to contribute, to be a problem-solver, and have a positive, can-do attitude. These people set high standards for themselves and their colleagues, and are self-starters and self-directed. They also have a high ability to focus and concentrate, have a tolerance for ambiguity, and are persuasive and work well with others. They also work harder than most. Above all else these entrepreneurial employees love and are dedicated to what they do.

Employees with these attributes would clearly be a great resource to any organization, private or public. The challenge to the organization is to design and implement a working culture which will make this type of individual welcome and productive. The mission of the entrepreneurially-based company or public agency is to gain a high and sustainable level of performance through enhanced organizational vitality. Such organizational vitality can be accomplished by strengthening, stimulating, and capitalizing on the creative, responsible, and spirited expression of employees who believe that they have a better idea and something important to contribute to improving organizational performance. The successful entrepreneurial organization demonstrates a "fit" between the employee and the employing agency.

Corporate Education and Innovation: Implications for the Public Sector

Reinventing government and other reform advocates may find useful another popular private sector management and performance strategy. Many successful companies are reinventing themselves through employee education. These companies have found that the entrepreneurial, knowledge-seeking, change receptive, and creative worker is an

essential resource to firms interested in sustaining and building their competitive advantage - essentially improving their performance. (18) In fact, these workers have been called essential to the dynamism of the U.S. economy.(19) Such workers are typically the product of an effective continuing education program.

A successful organization - private or public - is a learning organization. This is especially true not only for companies operating in highly competitive environments, but also for government agencies responsible for addressing serious and complex public issues and problems. Educational courses, certificates, degrees, even knowledge have very short shelf lives. In today's world, knowledge becomes obsolete and therefore less useful rapidly.

The rise of global competition and the recognition by enlightened businesses of the role and value of intellectual and human capital has created an adult training profession and industry. Today the connection between a skilled, entrepreneurial, and continuously learning workforce and organizational performance is clear and has led business leaders to demand better education and training standards and a greater focus on results. In addition, a highly visible and successful in-house employee education and training program can be a powerful recruitment tool. Being a "graduate" of one of these corporate training programs can greatly enhance an employee's career and value in the market place.(20) A good job is no longer just one that pays well; it's one that trains well. In 1998, employers spent over \$55 billion on formal employee training, up dramatically from earlier years.(21)

During the last twenty years this corporate education industry has matured into sophisticated curriculums and techniques based on solid research and proof-of-results that businesses demand. "Bottom-line" accountability has resulted in employment-oriented adult training being supportive of change, growth, and innovation. Curtis E. Plott, former President and CEO of ASTD referred to the last two decades as those "years of incubation for a profession that would-find its full relevance with the dawning of the knowledge era.(22)

An important and rapidly growing institutional trend in the field of employee and adult education is the establishment by companies of centralized, internally-sourced training and education centers, often called "corporate universities." Among the important goals of the corporate university are to help align training and development with company business strategies and to indoctrinate value chain members such as customers, suppliers, and dealers in the practices and policies of the company. "Most importantly," according to Jeanne Meister, "a corporate university is the chief vehicle for disseminating an organization's culture and fostering the development of not only job skills, but also such core workplace skills as learning-to-learn, leadership, creative thinking, and problem solving.(23) There are currently 1600 corporate universities, up from 400 only a decade ago. Forty percent of the Fortune 500 firms have corporate universities. The average corporate university budget is about \$15 million. One projection indicates that at the current rate of growth, corporate universities will soon outnumber traditional universities and thereby become the largest provider of post-secondary education in the United States.(24) Corporate University Xchange was formed to promote and service corporate universities.(25)

Perhaps of greatest importance, these universities are providing models of market-driven educational systems. Most certainly the performance of these systems will be contrasted to relevant components of America's traditional educational system and also the continuing educational and training programs of the government. In her book *Corporate Universities*, Jeanne Meister is quite blunt: "The entrance of the private sector into the learning business is placing severe pressure for transformation on America's 3,632 institutions of higher education. These institutions need to reinvent themselves for the knowledge economy. This re-invention involves both updating the content as well as altering the delivery system. Learning must be relevant to the skills needed for success in the knowledge economy as well as accessible and convenient to how adults learn. that is, on-the-job and from coworkers."(26) From her research, Meister has identified the corporate curriculum as being composed of the following seven core workplace competencies: 1) Learning to learn; 2) Communication and collaboration; 3) Creative thinking and problem solving; 4) Technological literacy; 5) Global business literacy; 6) Leadership development; and 7) Career self-management.(27)

A number of implications for the public sector can be drawn from these private sector employee educational initiatives and trends. Foremost, public policy makers and managers need to be as "enlightened" as their private sector counterparts regarding the value of intellectual and human capital and the role of continuing education in creating that capital. Also, Jeanne Meister's corporate curriculum of "seven core workplace competencies" mentioned above may have some relevance for public sector continuing education programs. All continuing education programs should be

subject to "bottom line" accountability. In addition, if public workers are to be productive in their jobs while at the same time enhance or at least maintain their value in the national labor market, they, like their colleagues in private businesses, need to continually upgrade their skills. Oftentimes such upgrading occurs in adult continuing education programs made available by employers. The U.S. federal government has a long and strong history of providing access to continuing education and training programs for its workforce. In fact, the U.S. government is the largest provider of continuing education programs in the world.(28) This extensive educational infrastructure strongly suggests a solid commitment on the part of the federal government to federal employee education. Such a commitment and infrastructure should provide sufficient resources to accomplish whatever employee education may be deemed to be necessary and desirable to improve the performance of the public sector.

CONCLUSION

The success and prosperity of the U.S. is tied to the performance of its private, social, and public sectors, separately and in combination. The quality of performance, in turn, is influenced by the degree to which an organization is entrepreneurial. Continuing worker education and training is an important factor in creating entrepreneurial organizations.

Fostering the development of the entrepreneurial organization within the federal government will be an important step in stimulating innovation in the public sector. The federal continuing education system can play a critical role in furthering these developments.

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