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Value creation and value appropriation in public and nonprofit organizations

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***Research Summary*:** In recent years, strategy scholarship expanded its scope beyond the realm of private firms. Despite notable advances, the field still lacks theoretical and empirical frameworks for fully understanding how public and nonprofit organizations interact with private firms to create and appropriate value. By recognizing the inherent complexity of interactions between organizations with different purposes and the existing challenges for designing effective governance arrangements, we assess how recent scholarship addresses some dilemmas related to both private and public value creation. Based on the extant literature and on some novel aspects raised by the articles in this issue, we also propose a framework to advance strategy research in the field. We emphasize the importance of stakeholder management capabilities among public, private, and nonprofit organizations in pursuit of enhanced public value and continuous support from appreciative stakeholders.

***Managerial Summary*:** Despite abundant examples of governance arrangements involving public, private, and nonprofit organizations (e.g., public-private partnerships and alliances involving NGOs, firms, multilateral organizations, public contracting, and so on), the strategic management field has only recently given attention to value creation and value appropriation beyond the scope of private organizations. Here we connect strategic management and public management to identify relevant dimensions that shape value-creating strategies and underpinning outcomes in public-private-nonprofit interactions. We highlight that public value arises from private interests and that the dynamic of value creation and value appropriation in activities involving the public interest can be influenced by not only resource endowments and organizational

capabilities but also by the way organizations address and manage stakeholder expectations.

KEYWORDS

nonprofit organizations, public organizations, value appropriation, value creation

1 | INTRODUCTION

Around the world, and at all levels of government, public organizations face unprecedented pressure to manage resources strategically to create public value by improving outcomes, offering new services, and managing costs (Bryson, 2018; Rainey, 2009). Performance aspirations are rising, with governments often expected to work closely with private and nonprofit organizations to achieve public aims, which can include everything from building infrastructure, to assisting disenfranchised citizens, to improving an area's economic competitiveness. But how does such collaboration occur in practice? How do public organizations effectively create and allocate resources? When does working with nonprofits and businesses amplify the public sector's effectiveness? What strategies do private and public organizations employ jointly to promote public value and what factors impede their collaboration? How does value depend on the nature of organizational boundaries, such as when nonprofits engage in franchising to tailor activities to the needs of public partners in various jurisdictions (Oster, 1996; Tracey & Jarvis, 2007)?

The field of Strategic Management has addressed these questions, but progress has been impeded by the absence of a comprehensive theoretical framework to integrate our understanding of value creation—by organizations of all types—with insights on how public, nonprofit, and private organizations work together. What we need is a theory of how and why certain types of governance arrangements—that is, the institutional structure of private and public organizations and the collaborations among them—arise to govern the constellations of capabilities and resources necessary to create value both for the organizations and for social welfare in a broader sense. Developing such a framework is complicated by the fact that public organizations are as varied and complex as private ones and that public organizations serve people with different preferences and perceptions of the goals to be pursued, and the nature of expected performance (Jones et al., 2016; Klein, Mahoney, McGahan, & Pitelis, 2013; Williamson, 1999). For public organizations, multitask principal/agent relations further complicate effective value creation and mission accomplishment (Holmstrom & Milgrom, 1991; Klein, Mahoney, McGahan, & Pitelis, 2010; Makadok & Coff, 2009).

When we issued the Call for this Special Issue, we asked for submissions that explore how public and nonprofit organizations work with private organizations to create and appropriate value. The articles in this issue reflect the range and depth of the challenges of organizational, competitive, and corporate strategies in pursuit of public value. The studies identify important complexities in this pursuit. For example, the studies show that public value is not always self-apparent, with actors in collaborations creating and re-creating their own conceptualizations of private and public value. Likewise, they identify changes in the nature and level of public engagement and the complications that arise when one actor is associated with both private and public institutions. Below, we expand on these and other complexities.

The articles in this issue reveal several core themes that constitute the basis for a broader framework of private and public value creation. Private and public organizations can each create value, both on their own and through collaborations, which can then be appropriated by the organizations that created this value, or it can be allocated to segments of the broader public. A fundamental challenge is to design governance mechanisms to enable value allocation beyond the organizations that created them, particularly towards those that are unprivileged or less well represented by formal organizations. While the incentives of private organizations can be, in part, aligned, the resources and capabilities enabling economic value creation are typically neither purely private nor purely public. The allocation by either a private or public organization of resources (which may be financial, technical, and relational, among other forms) is instead a manifestation of the design and creation of governance institutions (Libecap, 1989; North, 1990; Ostrom, 1990; Williamson, 1985). These and other core themes are elucidated below.

Where do we stand on the questions that we had raised when we issued the call for papers for this special issue? The last section of this paper describes the implications for future research in the field of Management on these issues. We call for deeper theorizing on the nature of public value, particularly given the parochial interests of organized claimants. Our analysis points to the importance of assessing (tangible and intangible) public value, and emphasizes the entrenchment of particular governance arrangements, such as public ownership of immovable infrastructure (e.g., bridges, sanitation systems) as particularly resistant to private capture. We also identify the importance of private appropriation in motivating public value creation and the role of stakeholder management capabilities to assure value creation and value appropriation by myriad of actors beyond the boundaries of the focal organization.

2 | COMPLEXITY OF PUBLIC VALUE CREATION AND APPROPRIATION

The research articles in this issue document recurring complexities that are important indicators of areas where further investigation can generate important insights on public value creation and appropriation. This list is far from comprehensive. Yet, taken together, these articles suggest directions for further research to define value and how it may be appropriated, and how private and public value creation may differ. Indeed, the articles reveal that the definition of what constitutes public value lacks a unified conceptualization. The vast and deep literature on public goods, where public value stems from a good's nonexcludability and nonrivalrousness (Ostrom, 1990; Samuelson, 1954), provides some analytic clarity, but does not capture the breadth of definitions in the public management field.

Existing conceptualizations have been so influenced by the literature on public goods that the field of Management lacks a unified construct on public value. For example, health care services are often seen as providing public value, even when they do not cleanly fit strict public goods definitions in terms of rivalry of consumption and excludability. Many wealthy people prefer that all people receive adequate health care services, sometimes with poverty as a condition for receiving public assistance. Under these circumstances, the provision of public services generates private value, as individuals who benefited from these services are appropriating the value created by the service provider, and also public value, as different stakeholders appropriate value from the very presence of healthier individuals, such as firms that experience lower employee absenteeism rates or increased productivity. Thus, the construct of public value is currently vague and in need of operationalization. As things now stand, there are a proliferation of definitions in the extant literature (see, e.g., Bozeman, 2007; Meynhardt, 2009; Moore, 1995). The field would benefit from much greater

attention to the conceptualization of public value. Beyond the classical conception of value as a result of the difference between willingness-to-pay minus cost, public value inherently offers collective implications. Much more scholarship is needed to understand the implications of various governance models—such as public agencies, nonprofit organizations, and private-sector corporations—for deploying resources to pursue public value creation (Bryson, Crosby, & Bloomberg, 2014; Williamson, 1999). The following is a list of salient areas for development.

2.1 | Public value creation evolves endogenously

The research articles in this issue suggest that public value is not a fixed, immutable, clearly discernible construct that can be identified separately from the processes that give rise to it. Rather, public value is an evolving construct even under circumstances where formal political considerations are relatively minimal. Consequently, the myriad of sources of public value creation are rarely crystal clear (Hart, Shleifer, & Vishny, 1997; Kivleniece & Quelin, 2012). Chatain and Plaksenkova in this issue examine how value, which is endogenously created by nongovernmental organizations (NGOs), can benefit other stakeholders beyond those who were originally supportive and empathetic to the NGOs. This example reinforces the evolving nature of both private and public value creation. The intricate importance of the details, and their timing, points to the idea that, in general, conceptualizations of public value stem from a broad process and only rarely reflect a public consensus.

2.2 | Public value can be discovered and created at multiple, interacting levels and horizons

The challenge of identifying public value is further complicated by the multiple, interrelated levels on which jurisdictional authority is conferred. Public value can be discovered and created through interactions within towns and villages, as well as through interactions among states and nations, which in turn influences and is influenced by regional and international concerns. A particular town or village may seek to implement recycling programs primarily to improve local sanitation; a state or nation may offer incentives to the public to purchase electric vehicles; and regional and international authorities may seek assurances to reduce carbon emissions. In each instance, the public value is conceived of somewhat differently despite the similar emphasis on environmental protection.

Paik, Kang, and Seamans consider the sharing economy platform of entrepreneurial firms, such as Uber and Lyft, to show how private and public organizations can jointly create value. Their insight is that political competition (e.g., elected officials not serving multiple terms, shorter tenure in public office) reduces regulators' incentives to ban such ridership programs in U.S. cities, which can benefit consumers and the broader society. Such political competition has strategic implications for innovation and entrepreneurship.

The field of Political Science has long documented that people, including those employed by and/or elected into office in public organizations, have private interests that may impinge on or even conflict with their public roles (Dunleavy, 1991; Gans-Morse et al., 2018; Treisman, 2007). The consequences of such conflict for value creation and appropriation are the subject of several of the studies in this issue. Chatain and Plaksenkova show how actors in NGOs can support for-profit firms in overcoming market failures to achieve efficient and effective operation of supply chains in areas where the institutional environment is not fully developed. By overcoming a "valley of frustration" in the construction of robust solutions to market failures, the NGOs help achieve alignment among actors' interests beyond what can arise through the private sector alone. This analysis points to the special role of NGOs in embodying, sustaining, and supporting public value through temporary periods of malalignment.

2.3 | Some actors in private institutions pursue public value

Several articles in this issue demonstrate that actors employed by and/or leading private organizations may pursue public value well beyond what appears to be in their narrower sense of self-interest. An example is firms' providing value through disaster relief donations, as shown in Ballesteros and Gatignon's study in which firms not only provided important disaster relief donations, but did so beyond the areas where their operations and activities are located. Taken together, these studies suggest that actors in private corporations may pursue public value to achieve legitimacy and/or influence in ways that are not directly incentive-aligned. Alonso and Andrews in this issue echo these themes in their analysis of waste management projects in the United Kingdom organized through public-private partnerships. Their analysis suggests that partnerships across the public-private divide may deliver inherently more value than other types of governance arrangements in stewarding public infrastructure funds precisely because of the commitment to purpose signaled by private actors.

2.4 | Contractual arrangements can create novel value in public-private interactions

Several of the articles in this issue point to the benefit of effectively designing specific governance arrangements for creating value. Governance design involves decision rights that are "partitioned rights" (Alchian, 1965, p. 820) under different organizational forms (Klein, Mahoney, McGahan, & Pitelis, 2019), and is a means to infuse order, mitigate conflict, and realize mutual gain (Commons, 1932; Williamson, 2000). This is because clarity of responsibilities is essential to effective decision-making, and yet fairness in the allocation of decision rights is at the heart of sustainable governance. Bruce, De Figueiredo, and Silverman show that, when the U.S. Department of Defense preserves some partitioned decision rights while conferring other decision rights on private firms, more value is created than when either public or private actors act independently. In this and other instances, some decision rights reflect ex ante authority to allocate resources, while other decision rights reflect ex post authority to reallocate after the resolution of uncertainty. This finding is consistent with Chatain and Plaksenkova's argument that private and nongovernmental actors collaborate intertemporally to overcome challenges in value creation; Alonso and Andrews' findings on collaborations in the United Kingdom; and Ballesteros and Gatignon's study of coordination between private corporations and nonprofits in disaster relief. Kaul and Luo in this issue express this point in theoretical terms by examining ways in which contractual arrangements can overcome market frictions that impede value creation through private and public organizations and collaborations among them.

2.5 | Resources must be governed effectively to generate value

One implication of governance design research is that resources and capabilities must be governed effectively to create value, as widely recognized in both strategic management (Mayer & Salomon, 2006) and public administration (Termeer, Dewulf, Breeman, & Stiller, 2015) scholarship. Individuals and organizations vary in their governance capabilities. Some individuals and organizations are more effective than others in deploying resources and dealing with the peculiarities of the institutional environment in pursuit of value (Quelin, Cabral, Kivleniece, & Lazzarini, forthcoming), as exemplified in several of the studies in this issue. Zheng and Shenzhen, for example, describe how some organizations are more deeply "embedded" in their environments, and therefore more effective in managing political capital. Martin and van den Oever demonstrate how different approaches to decision making shape outcomes in the Dutch water sector. Alonso and Andrews show that

partnership capabilities are important to increase the positive effects of targeted-based contracts on performance in public-private partnerships.

3 | CORE THEMES OF CONVERGENCE

In addition to the complexity and diversity of value creation, the research articles in this issue also reveal several important core themes that the potential to shape further research in the field. These themes require further theoretical and empirical development, and because they arise repeatedly across this issue, they are worthy of note.

3.1 | The design of governance arrangements for deploying resources is a critical matter of strategy

Governance design is crucial strategically. It involves the design of organizational structures to address aspects related to incentive schemes, allocation of decision rights, information flows, and inter-organizational collaboration in the pursuit of public value. Understanding the challenges associated with the design of novel forms of organizing at the public-private-nonprofit interface becomes particularly central in an era of technological disruption, widespread communication channels, and multiple sources of pressure from a myriad of stakeholders (Lundrigan, Gil, & Puranam, 2015; Puranam, Alexy, & Reitzig, 2014). Along these lines, a key theme throughout some of these articles is the importance of matching design features to organizational strengths, resources, and the circumstances in which they operate. Grimpe, Kaiser, and Sofka in this issue unite strategic human capital and stakeholder theories to show subtle ways in which value creation can occur. Specifically, their research suggests that advocacy group experience creates signals for valuable human capital in terms of stakeholder knowledge and legitimacy transfers to innovative firms. This study's reasoning is informed by a series of semi-structured interviews with advocacy group representatives and firm employees in charge of human resource practices.

The theme of institutional and organizational design facilitating value creation is also evident in several other studies, including those by Kaul and Luo; Bruce, De Figueiredo, and Silverman; Zheng and Shenzhen; Martin and van den Oever; and Alonso and Andrews. For example, Kaul and Luo consider a critical issue for strategic management, organization theory, and public policy concerning the comparative efficiency of various governance arrangements, which include for-profit firms, nonprofit organizations, self-governing collectives, government bureaucracies, and a variety of hybrid organizational forms, in addressing social issues of allocation that arise from market frictions.

3.2 | Complex governance arrangements such as public-private partnerships carry substantial potential for value creation

Effective organizational arrangements create incentives for participating stakeholders to deploy resources in ways that match the institutional objectives for creating private and public value. In general, this means that each stakeholder must anticipate being allocated enough value from the arrangement to choose participation over outside alternatives (Barnard, 1938; Klein et al., 2019; Simon, 1947), and the arrangement must produce the stakeholder value for which it has been designed. The value allocated to stakeholders may have many dimensions, such as financial returns, power, status, influence, fame, social relationships, and/or intrinsic satisfaction. In line with recent advances in stakeholder management theories in strategy (Barney, 2018), partnerships and other governance

arrangements involving public, private, and nonprofit organizations are relevant settings to extend the analysis of value creation and value appropriation beyond the shareholder perspective by incorporating additional claimants, such as the beneficiaries of the organization's activity.

Several of the analyses in this issue demonstrate that complex governance arrangements that incorporate elements of public, nonprofit, and/or private systems allocate value in ways that engender widespread stakeholder participation. The result is a substantial potential for value creation. Studies along these lines include Alonso and Andrews on cross-sector partnerships in the United Kingdom, and Chatain and Plaksenkova on supply chains.

3.3 | Value appropriation resolves contention between private interests

The appropriation of value from exchanges involving rivalrous goods and services, such as financial returns, is, ex post, always private and a zero-sum game. This holds even when value is channeled or retained in public institutions under the control of employees, agents, and other public servants with private identities. The very acts of appropriation—however, well- or ill-formed—can be targeted in ways that elicit private choices to contribute. Zheng and Shenzhen demonstrate this in their analysis of private corporations, charities, and governmental actors; Martin and van den Oever show how Dutch water authorities restrict allocations in ways that align interests; and Paik, Kang, and Seamans reveal how the potential of politicians to appropriate value through election shapes their contributions to value creation. Nevertheless, a more nuanced portrait arises when the allocation process involves stakeholders with heterogeneous preferences. For example, a for-profit enterprise can appropriate financial returns and contribute and create value to be appropriated by other stakeholders in the form of improved social conditions beyond the financial gains. This outcome can also occur in public-private relationships, with examples in areas such as defense (see Bruce et al. in this issue), prisons (Cabral, Lazzarini, & Azevedo, 2013) and waste services (see Alonso & Andrews, in this issue).

3.4 | Value creation arises from collaboration, and is in that sense public

Several of the research articles in this issue also show how value creation in various situations stems from collaboration, which can be public in the sense that the joint value created through cooperation is greater than the sum of the parts to induce participation by stakeholders (Klein et al., 2019). When participants pursue their interests, and engage in value creation, they inevitably eventually confront tradeoffs. Martin and van den Oever explore this in the context of Dutch water authorities, in which decision rights of various types are designed both to induce alignment and to resolve ex post questions about allocation. Paik, Kang, and Seamans examine how value creation—conceptualized as public safety—trades directly against the appropriation of value by Uber and Lyft acting as representatives of drivers. A contribution of their study is to show how the election process induces commitment to shared goals. Overall, several groups of stakeholders can benefit from the value created through collaborative arrangements in the public-private-nonprofit realm. In such cases, public value creation can stem not only from the generated outcomes but also from the value creation process itself in the form of enhanced social cohesion and improved capabilities of the parties involved in the collaboration efforts.

4 | A FRAMEWORK FOR ADVANCING STUDY IN THE FIELD

The studies in this issue, taken as a whole, suggest a series of important opportunities for developing research in the field on value creation and appropriation in public, nonprofit, and private

organizations. The list of suggested paths forward appearing below is far from comprehensive, but does indicate some areas of significant potential.

4.1 | What is public value, and how does it arise from private interests?

The research articles published here and elsewhere demonstrate that public value may arise endogenously as the stakeholders involved explore, negotiate, and respond to opportunities for aligning private interests toward common ends. This provides opportunities to link understanding of private interests, as they evolve and unfold, with perceptions of benefits, and, in turn, with conceptualizations of aligned private and public value. Variability across actors in the intensity of alignment generates opportunities for negotiation and trading. The studies in this issue, particularly those by Alonso and Andrews, Paik, Kang and Seamans, and Kaul and Luo suggest the broad scope for research in this domain. Alonso and Andrews, for example, demonstrate that explicit target-setting for cross-sector partnerships in waste services is crucial for an increased amount of recycled waste rates, especially when partners involved in the arrangement are more diverse. This suggests that private and public value creation are not mutually exclusive. Further research is necessary to elucidate conditions under which the managerial practices in public-private arrangements interact with capabilities, governance, and institutional features to enable value creation and how these result in varying stakeholder benefits. Theoretical and empirical advances to unpack these constructs and assess their effects on value creation and value appropriation are welcome.

4.2 | How is public value appropriated?

The extensive and long-lived research on public goods, especially common-pool resources, focuses primarily on two benchmarks: First, the degree of rivalrousness (or, as Ostrom (1990) suggested, "subtractability of use"), and second, the degree of excludability. The articles in this issue illustrate that not only do rivalrousness and excludability run on a spectrum, but they also can be influenced by the organizational design of the governance arrangements for the collective good (Ostrom, 1990). In some cases, access to a particular resource can be subjected to a toll and thus be made exclusive. Likewise, design decisions can have implications for rivalrousness in the construction of the goods in the first place. We see such design implications in Chatain and Plaksenkova's discussion of the roles of nongovernmental agencies in global supply chains. The dynamic construction of aligned interests over time across different actors occurs through organizational designs that successfully built a latticework of resources and capabilities that variously differ in their rivalrousness and excludability. The processes by which the value is constructed and appropriated suggest complex interdependencies between excludability and rivalrousness (even interpreted as subtractability of use). Likewise, identifying the existing stakeholders who are co-producing or benefiting from activities at the public-private-nonprofit interface is crucial for an evolved understanding of public value creation and appropriation dynamics. Again, much more theory development is needed to make these issues tractable to both practitioners and researchers from strategic management and public administration disciplines.

4.3 | How does the ability to manage stakeholders influence the dynamics of value creation and value appropriation?

Stakeholder management affects an organization's operations, performance, and legitimacy, as a variety of theoretical perspectives have discussed (Freeman, 2010; Mitchell, Agle, & Wood, 1997). The growing pressure for improved social and environmental outcomes pushes organizations to improve

stakeholder relationships through corporate social responsibility programs (Barnett, 2007; McWilliams & Siegel, 2001). More recently, novel arrangements for the delivery of services usually provided by governments or under traditional government regulation have given rise to hybrid organizations that operate where public, private, and nonprofit interact and collaborate.

In an era in which stakeholders have additional communication channels to express their needs and to call into question an organization's legitimacy, improved stakeholder management capabilities can be crucial for effective value creation. Stakeholder management capabilities can enable organizations to deploy their operational capabilities in pursuit of enhanced public value and continuous support from appreciative stakeholders, thus helping organizations to create sustainable business models. Uber, an organization addressed by Paik, Kang, and Seamans, has had some success in managing expectations with users, drivers, and politicians that complement its pioneer technologies in ridesharing services and help Uber and their stakeholders to appropriate the value created. Similarly, enhanced abilities for dealing with multilateral organizations, local authorities, patients, donors, and the medical community have been central to nonprofit organizations such as *Médecins Sans Frontières* to achieve their organizational missions. Further theoretical development on stakeholder management capabilities can be useful to elucidate the underpinning mechanisms allowing some organizations to foster value creation and appropriation by relevant stakeholders with different preferences.

5 | CONCLUSION

We are grateful to the editors, authors, reviewers, and especially readers for the opportunity to offer this issue on value creation and appropriation in public and nonprofit organizations. As organizations of all types, and especially governments, seek to create more value in the public interest, the benefits of greater understanding of the nature of public value itself will be crucial to progress. More research is also needed on the alignment of private and public value, and on the ways in which organizations are designed to govern resources that create public value and allow the appropriation of value by a large number of stakeholders to address the pressing social dilemmas of our time. We hope that this issue inspires further progress in these challenging times.

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