Available online at www.sciencedirect.com
SCIENCE DIRECT®
Journal of Business Research 58 (2005) 232–240
JOURNAL OF BUSINESS RESEARCH

Competitive advantage in public-sector organizations: explaining the public good/sustainable competitive advantage paradox☆

Judy Matthews[a,1], Arthur D. Shulman[b,*]

[a]National Graduate School of Management, Australian National University, Canberra, Australian Capital Territory 0200, Australia
[b]School of Business, University of Queensland, Brisbane, Queensland 4072, Australia

Abstract

Resource-based views of the firm and in particular Kay's (*Why Firms Succeed.* Oxford: Oxford Univ. Press, 1995) model of sustainable competitive advantage have been used to advance an understanding of differences in the competitive advantage of private-sector firms. We extend the analysis to a public-sector firm where its major purpose includes engaging in public good by giving away its knowledge base and services. The case highlights the paradox that many public-sector organizations face in simultaneously pursuing public good and sustainable competitive advantage. While Kay's model is applicable for understanding intergovernmental agency competition, we find it necessary to incorporate resource dependency theory to address the paradox. Implications for theory and practice are provided.

Keywords: Sustainable competitive advantage; Public sector; Resource-based view

1. Introduction

Kay (1995) presents the notion of sustained competitive advantage in organizations obtained through relational architecture, reputation, innovation, and strategic assets. At the core of Kay's model is the resource-based theory of the firm that focuses on the internal attributes or the resources and capabilities of the firm where, in order for the resources and capabilities of a firm to provide superior performance, they must be (1) valuable in the sense of enabling a firm to exploit its environmental opportunities (and/or neutralize its threats), (2) rare among its current or potential competitors, (3) costly to imitate, and (4) without close strategic substitutes (Barney, 1991). Kay states that organizations have a strong architecture where there is an expectation of long-term relationships both within the firm and among its members, a commitment to sharing the rewards of collective achievement and a high but unstructured degree of informality. He contends that this architecture adds value to individual contributions of its members through the creation of organizational knowledge, through the establishment of a cooperative ethic within the organization and by the implementation of organizational routines.

For Kay (1995, p. 27) and others (see the work of the IMP group; Hakansson, 1982, 1987, 1989; Hakansson and Snehota, 1995; Axelsson and Easton, 1992; Moller and Wilson, 1995), good commercial relationships are fashioned through cooperation (joint activity towards a shared goal), coordination (the need for mutually consistent responses), and differentiation (the avoidance of mutually incompatible activities). However, Kay in passing, also suggests that the notion of sustained competitive advantage is relevant for understanding the differences in performances of nonprofit organizations in situations, ''where the added value or benefits are not retained by the firm, but instead are distributed to its members or the community'' (Kay, 1995, p. 174). Unfortunately, Kay does not give attention to the paradox this raises, where the purpose of the organization is to create knowledge and services and give them away for the public good rather than maximizing private profit.

The aim of this paper is to explore ways of addressing the public–private good paradox as it exists within Kay's

☆ This research is funded under an Australian Research Council SPIRT Grant ''Institutionalisation of purchaser–provider models in agricultural RD&E: gateways or shackles?'' 1998–2000, awarded to A.D. Shulman, A. Wollin, B. Duffield, P. Steffens, and A. Wissemann. Company names are disguised to protect privacy.
* Corresponding author. Tel.: +61-7-3365-6748.
E-mail addresses: judy.matthews@anu.edu.au (J. Matthews), a.shulman@gsm.uq.edu.au (A.D. Shulman).
[1] Tel.: +61-2-6125-9833.

0148-2963/$ – see front matter © 2002 Elsevier Inc. All rights reserved.
doi:10.1016/S0148-2963(02)00498-8

notion of sustained competitive advantage, when it is applied to public-sector organizations. We structure this paper by first describing the paradox. We then systematically apply Kay's sustainable competitive advantage framework of architecture, reputation, innovation, and strategic assets to identify the specific capabilities of the organization. We investigate the power of his framework to capture the effectiveness of a large public-sector R&D organization, where innovation is its core business. The analysis illustrates the paradox as well as the need to integrate resource dependency considerations into Kay's notion of sustained competitive advantage if it is to be a useful framework for advancing public-sector applications.

2. Competitive advantage and public-sector firms—exploring the paradox

According to the resource-based view of the firm, the basis of sustainable competitive advantage of a firm stems from its capabilities such as value, rareness, inimitability and organization (Barney, 1991, 1997; Barney and Hesterley, 1996) or more generally reputation, innovation, architecture, and strategic assets (Kay, 1995). Successful private-sector firms use their capabilities to add value by using these capabilities in a proactive way and by demonstrating appropriability, or the ability to realize the benefits of a distinctive capability for the benefit of the firm itself rather than for its customers, suppliers, or competitors.

In contrast, public-sector organizations and government departments are created to fulfil responsibilities of government and are expected to cooperate in the policy development and the delivery of services. In Western societies, public agencies are often created under the guise of addressing market failure and are maintained to contribute to the common good. In the case of public-sector R&D, their role is also to contribute to the development of industry and the creation of markets, rather than be self-serving.

Most of the writing on competitive advantage, like the theoretical rationale for purchaser–provider forms of relationships, builds on agency theory. A general proposition of agency theory is that those in control of resources will serve their own interests, rather than those who own the resources (Stewart, 1999). In contrast, public-sector organizations are created to develop and deliver service for the benefit of the populace. For example (and the example that will be used throughout this paper), public-sector agriculture R&D organizations create knowledge of use to producers and other members of the supply chain, such as processors and distributors. Their purpose is not for commercial transactions to benefit a few, but to develop a sustainable capability of the industry in terms of efficiency and effectiveness. In the case of agriculture, the outputs and outcomes that are targeted include better strains of plant varieties suitable for the local environment or for specific end products, better practices, which generate higher yield, and farming practices, which value the whole environment and its sustainability.

Public-sector organizations are funded from a central source of government funds, where the constraints of a largely 'fixed pie' creates competition with other government agencies for funding. Each firm must have resources and capabilities and must take into account their environment and negotiate with relevant sources of funding including Departments of Treasury for resources. In this sense, they are largely dependent on their environment for resources. Most importantly, in a parliamentary democracy, they are also dependent upon other bodies, such as ministerial cabinets, for deciding on their direction and scope of operation. In comparison, private-sector organizations have governance structures that provide direction and scope of operations that are intended to serve their own interests.

3. Case study of Sun State Agriculture

We investigate this paradox of sustainable competitive advantage where the purpose of the organization is to create knowledge and services and give them away for the public good rather than maximize private profit, in an agriculture public science organization. We begin by using Kay's framework of architecture, reputation, innovation, and strategic assets to identify the specific capabilities of the organization and examine the effect on these capabilities over two recent phases of internal restructuring. These phases are the implementation of purchaser–provider relationships within the organization to create distinct business groups focused on distinct areas of R&D and secondly, bringing together the business units to form a new united and coordinated structure with other R&D units focused on research and development.

4. Methodology

Case-based data used for the analysis of the adequacy of the concepts of strategic competitive advantage were taken from 60 semistructured interviews with senior- and middle-management staff members and external stakeholders, through observer status note taking at 24 senior management and board level meetings, and through content analysis of the organization's archival records over a 3-year period. The units at project, program, institute (business group), and organizational levels selected for this study were purposively sampled (Sekaran, 1992). Multiple senior managers were selected for literal replication purposes, i.e., to investigate whether the findings from one unit hold in another case. Business units were chosen to challenge or extend emergent theory by choosing cases where earlier findings would expect to be challenged.

This data collection occurred at the project, program, institute (business group), and organizational levels of this