



Sandro Cabral

Strategy for Public and Nonprofit Organizations

An Applied
Perspective

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Strategy for Public and Nonprofit Organizations

“I have long admired Sandro Cabral for his brilliance and for using frontier ideas from the field of Strategy in the public interest. The book you hold in your hands has me admiring him more than ever. Full of powerful examples and practical insights, this book will make you optimistic that private and public organizations can conquer the world’s most pressing problems by working together.”

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—Thomas D’Aunno, *Professor of Management at the Robert F. Wagner Graduate School of Public Service, New York University*

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To Renata, Luiza, and Leticia

PREFACE

Like many others, I grapple with the belief that my achievements are unearned, illegitimate, and merely a stroke of luck. Regardless of the publications and several teaching and research awards accumulated, the persistent feeling of being a fraud lurks, akin to the unmasking at the end of a Scooby-Doo episode. Needless to say, impostor syndrome has haunted me relentlessly from the moment Palgrave MacMillan offered me a contract to write this book, through the writing process, and even now that I have completed all the chapters.

I have built my academic career advocating for the importance of building bridges between strategy and public management. I can testify to the growing number of works in the 2010s and 2020s examining not only how strategic management lenses can help public and nonprofit organizations create public value but also how private firms can benefit from a careful consideration of government and the third sector. Despite these facts, a myriad of questions arose in my mind when conceiving this book. Do you have something new to say, really? How will you avoid producing a shallow piece that, in attempting to promote cross-fertilization and interdisciplinary dialogues, may overlook important concepts on both sides of the fence? Will your book adopt a “fill in the blanks” approach and be limited to demonstrating how strategic management theories apply to the context of public and nonprofits? How will your book add to previous works focused on the interface between strategy and public administration, such as Mark Moore’s seminal book on the relationships

between strategic management and public value creation¹, the excellent works of John Bryson on strategic planning in public and nonprofits², the carefully conceived book of Ewan Ferlie and Edoardo Ongaro³, and the work of Rhys Andrews, George Boyne, Jeniffer Law, and Richard Walker⁴?, all published by public administration and public management scholars? How can your book benefit strategic management scholars and managers from private organizations seeking to understand the functioning of governments and nonprofit organizations? Will your book be useful to public managers to design and implement policies that can improve the lives of the communities they serve?

The list of questions above is not exhaustive, and of course, I am not confident that I have found convincing and satisfactory responses to all of them. Nevertheless, I have accepted the challenge and made some self-centered resolutions to make this personal endeavor possible.

I made a promise to myself: if I was not having fun while writing the book, I would quit. As you can see, I did not quit. Despite the pressure of deadlines and other professional and personal duties that never cease, I can confidently say that writing this book brought me joy. I relished in finding suitable empirical examples, in crafting and revising sentences, and in acquiring new knowledge along the way.

Inspired by the principal-agent theory, I also convinced myself that the only thing I can control is my efforts. This realization was pivotal in dealing with impostor syndrome, and I have dedicated all my efforts to encapsulating in this book what I have been doing for over two decades: connecting abstract concepts to reality or to configurations students can grasp. Since my undergraduate studies in engineering and throughout my master's and doctoral studies in management, understanding the links between theory and practice has been the most effective way for me to learn. The professors I have most admired were those who helped me connect the dots, understand the peculiarities of the context under examination, and utilize accumulated knowledge to understand different contexts in the future. Hence, the inclusion of empirical examples to facilitate these connections is essential.

¹ Moore (1995).

² Bryson (2018).

³ Ferlie and Ongaro (2015).

⁴ Andrews, Boyne, Law, and Walker (2011).

Consistently, I have strived to integrate both the recent advancements in the literature on strategic management in the context of public and nonprofit organizations and the findings of my own research. This area has gained significant traction in recent years, as evidenced by numerous contributions and special issues in leading business and management journals⁵. Indeed, it is interesting to note that most existing books advocating for connections between strategy and public and nonprofit management have been authored by scholars from the public and nonprofit sectors. This fact presents a unique opportunity to produce a book that emphasizes the strategic management perspective. Along these lines, in addition to the contributions of public and nonprofit authors, the present book sheds light on the efforts made by business and management scholars. It also explores the contributions of organizational and managerial economics to the realm of strategy in the context of public and nonprofit organizations and examines the strategic actions undertaken by private and for-profit firms in a world characterized by multiple stakeholders with conflicting demands.

I also drew upon my personal experiences to write this book. Growing up in a suburb of São Paulo, Brazil, I was surrounded by poverty, structural inequities, police brutality, and deficient infrastructure. These firsthand experiences allowed me to witness the hardships caused by incapable governments in the lives of those most in need. Later, living in Salvador, Bahia, I encountered the issues of racial and gender inequities from a different perspective, which only served to amplify my indignation and sense of mission. Nearly two decades since completing my doctoral studies, I am certain that the decision I made to harness my capabilities and energy to seek solutions for addressing major societal problems through the lens of management was the right thing to do.

All these elements above helped me to mitigate the effects of impostor syndrome, persevere, and complete this book. While I understand that some readers may dislike my approach, this book is a personal effort that reflects my truth, intentions, aspirations, and passions. The examples from Motown, carnival, movies, and various public, private, and nonprofit organizations—some drawn from works of people whom I

⁵ Refer to Barney (2005); Cabral, Mahoney, McGahan, and Potoski (2019); Mahoney, McGahan, and Pitelis (2009); McGahan, Zelner, and Barney (2013); Quélin, Kivleniece, and Lazzarini (2017).

deeply admire—alongside my personal trajectory were essential for amplifying my voice and thoughts.

The book expresses the way I perceive the world: as a place where solutions to the problems faced by disenfranchised populations can be discovered, attenuated, or at least understood by integrating elements from public, private, and nonprofit organizations. Complex challenges faced by businesses and society at large are seldom overcome without integrating complementary elements, which, when combined, produce stronger effects than when isolated. The recent example of the COVID-19 pandemic illustrates that the development of vaccines would not have been possible without the orchestrated efforts of public, private, and nonprofit organizations. Similarly, major technological innovations often emerge from the combined efforts of passionate entrepreneurs, nonprofit research institutes, and massive public investments. This reinforces my belief in the importance of understanding how strategic management perspectives are crucial for enhancing the performance of public and nonprofit organizations and fostering successful cross-sector collaborations.

Overall, I cannot guarantee that reading this book will be a valuable and worthwhile experience for every reader. The only assurance I can offer is that my friends, coauthors, scholars, managers, and the students with whom I have had the privilege to interact will recognize my voice throughout the pages.

Despite its flaws, this book would not have come to fruition without the support of numerous individuals and organizations. I am especially indebted to some mentors who eventually became coauthors and friends. Marcus Alban, my master's and doctoral advisor at the Federal University of Bahia in Brazil, was the first person to encourage me to write this book and reminded me of this need every time we met. Sergio Lazzarini played a pivotal role in my academic journey and saw value in me that I had not recognized myself; without his encouragement, I doubt I would have become a strategy scholar. Furthermore, Sergio provided detailed comments on the initial version of this manuscript, which significantly contributed to improving the book, or at the very least, making it less deficient. Paulo Furquim de Azevedo was also instrumental in my life, first by introducing me to the world of organizational economics as my mentor during my bachelor's in engineering at the Federal University of São Carlos, and later by being an incredible coauthor. Anita McGahan has been a constant source of inspiration, whether through her beliefs in the

importance of strategic management lenses for addressing major societal needs or by opening doors to the mainstream strategy for scholars like me who were outside the main cliques. Bertrand Quélin, with his astuteness, discipline, and unique sense of humor, taught me a great deal about navigating the field of strategy. I have also benefited from interactions with several coauthors over the years. A huge thanks to all of you.

I acknowledge the students of undergraduate, graduate, and executive education programs I had the privilege to interact with in my regular courses at the Federal University of Bahia and at Insper, as well as students from institutions such as HEC-Paris, New York University, EMLV-Paris, and Agostinho Neto University in Angola, whom I had the opportunity to meet during visiting positions or exchange programs. Believe me, I learn more from you than one can imagine. I am also deeply indebted to Guilherme Fowler Monteiro and Sergio Lazzarini for their course materials, which shaped some of my teaching notes that served as the basis for several chapters of this book. Your generosity is immense. I am also grateful to Marcelo Marchesini and Bruno Varela for their suggestions and dialogues about strategy in the context of the public sector.

This book would not be possible without the academic council of Insper that offered all the institutional support I needed to make my intentions possible. I also thank Milton Seligman and Leticia Piccoloto from Brava Foundation who believed in this project from the outset and provided me with the necessary funding for a sabbatical leave at the New York University between August 2023 and January 2024 to write this book. Andre Marques and Aline Marcon from Insper offered invaluable support with the administrative burdens and I am indebted with both.

Special thanks to Salo Coslovsky, Thomas D'Aunno, and Sherry Glied from the New York University's Robert F. Wagner Graduate School of Public Service and to Sinziana Dorobantu from the NYU Stern School of Business for hosting me during my sabbatical and granting me access to all I needed from NYU to complete this book. I also thank Leandro Pongeluppe for his support, friendship, and informal conversations while I was in the United States.

Crucial in this journey is my family, who provided all the necessary emotional and logistical support to make this project a reality. My parents, "Dona" Claudia e "Seu" Cabral, and my mother-in-law, Helia Ruas Gaspar, not only offered invaluable encouragement but also lent a helping hand during my absence from Salvador. I am deeply indebted to my daughter, Luiza, for understanding my absence, and to my younger

daughter, Leticia, who bravely accepted the challenge of joining me and living with her father in New York City, away from her family and friends. Finally, I am immensely grateful to my partner, the love of my life, Renata, for being an exemplar of kindness and resilience, for embracing the distance, and for letting me be myself.

São Paulo, Brazil
New York City, USA

Sandro Cabral

CONTENTS

Part I Foundations

1	Introduction	3
	<i>Why Do Public and Nonprofit Organizations Need Strategic Management?</i>	10
	<i>Why Do Private Organizations Need to Pay Attention to Public and Nonprofit Relationships?</i>	14
	<i>Book Structure</i>	19
	<i>References</i>	21
2	Strategy Beyond Private and For-profit Organizations	25
	<i>Strategy: Genesis and Evolution in the Management Realm</i>	26
	<i>What Is Strategy?</i>	33
	<i>Strategy in the Context of Public and Nonprofit Organizations</i>	35
	<i>Differences Between Public and Private Organizations</i>	35
	<i>Public Policy Cycle and Strategy</i>	37
	<i>Strategy in Public Organizations: Cooptation by Private Interests? Really?</i>	39
	<i>Strategy and Public Administration/Management: More Dialogues Are Needed</i>	41
	<i>Conclusions</i>	44
	<i>References</i>	45

3	Public Value Creation	51
	<i>What Is Value? A Strategic Approach</i>	53
	<i>About Public Value</i>	56
	<i>The Public Value Creation Dynamics</i>	58
	<i>The Importance of Mission for Public Value Creation</i>	59
	<i>Public Value Creation: The Strategic Triangle</i>	62
	<i>Public Values and Public Value Creation</i>	64
	<i>Conclusions</i>	67
	<i>References</i>	67
	Part II Inside the Organizational Boundaries	
4	Incentives in Public and Nonprofit Organizations	73
	<i>Principal-Agent Relationships</i>	74
	<i>Agency Costs</i>	76
	<i>Incentive Contracts with Complete Information</i>	77
	<i>Incentive Contracts with Asymmetric Information</i>	80
	<i>Group-Based Incentives and Relational Contracts in Public and Nonprofit Organizations</i>	88
	<i>The Free-Riding Problem</i>	92
	<i>Relational Contracts</i>	94
	<i>Conclusion</i>	104
	<i>References</i>	105
5	Performance Management in Public and Nonprofit Organizations	107
	<i>Objective Versus Subjective Performance Indicators</i>	110
	<i>Distortions and Problems in Objective and Subjective Measures</i>	113
	<i>Multitask</i>	113
	<i>Ratchet Effect</i>	115
	<i>Gaming</i>	117
	<i>Social Comparison</i>	120
	<i>Distortions in Subjective Measures</i>	121
	<i>Defining Relevant Performance Indicators: The Importance of Theory of Change</i>	122
	<i>Selecting Key Performance Indicators (KPIs)</i>	126
	<i>Conclusion</i>	127
	<i>References</i>	128

6	Centralization Versus Decentralization in Public and Nonprofit Organizations	131
	<i>Centralization Versus Decentralization of Decision Rights:</i>	
	<i>Pros and Cons</i>	135
	<i>Benefits of Decentralization</i>	136
	<i>Problems of Decentralization</i>	141
	<i>Balancing Centralization and Decentralization</i>	145
	<i>Organizational Structures</i>	148
	<i>The Unitary Form (U-Form)</i>	150
	<i>Multidivisional Forms (M-Form)</i>	151
	<i>Matrix Forms</i>	154
	<i>Conclusions</i>	156
	<i>References</i>	157
7	Strategy Implementation	161
	<i>Defining the Concept of Strategy Implementation</i>	163
	<i>Drivers of Successful Implementation</i>	165
	<i>The Importance of External and Internal Fit in Strategy Implementation</i>	170
	<i>External Fit and Strategy Implementation</i>	173
	<i>Internal Fit and Complementarities During Strategy Implementation</i>	177
	<i>Strategy Implementation and Organizational Inertia</i>	179
	<i>Conclusion</i>	183
	<i>References</i>	184
Part III Outside the Organizational Boundaries		
8	Stakeholder Management in the Public Interest	191
	<i>Stakeholder Management: What Is?</i>	194
	<i>Stakeholder Management Beyond Profit-Oriented Organizations</i>	198
	<i>Stakeholder Approaches and Public Management</i>	200
	<i>Firms and Collective Action Problems: A New Stakeholder Orientation</i>	203
	<i>Stakeholder Analysis: The Identification Issue</i>	207
	<i>The Power-Grid Model</i>	208
	<i>The Stakeholder Identification and Salience Model</i>	210
	<i>Conclusion</i>	213
	<i>References</i>	214

9	On the Government Boundaries	219
	<i>Setting the Boundaries: Drivers of Scope Choices</i>	224
	<i>Organizational Boundaries: The Contributions of Property Rights Theory and Transaction Cost Economics</i>	224
	<i>Organizational Boundaries: The Contributions of Public Economics and Policy Analysis</i>	227
	<i>The Different Modes of Provision</i>	232
	<i>Full Government Provision</i>	233
	<i>Outsourcing</i>	235
	<i>Public–Private Partnerships and Concessions</i>	237
	<i>Privatization</i>	238
	<i>Choosing the Mode of Provision</i>	240
	<i>Probity Concerns</i>	240
	<i>Capable Suppliers</i>	241
	<i>Private Investments and Ownership</i>	243
	<i>An Integrative Model for Selecting the Mode of Delivery</i>	244
	<i>Conclusion</i>	247
	<i>References</i>	248
10	Cross-Sector and Public–Public Collaborations	251
	<i>Cross-Sector Collaborations: Definition and Forms</i>	255
	<i>Strategic Alliances and Cross-Sector Collaborations: Differences and Similarities</i>	259
	<i>Divergent Points Between Alliances and Cross-Sector Collaborations</i>	261
	<i>Convergent Points Between Alliances and Cross-Sector Collaborations</i>	263
	<i>Collaborative Governance in Cross-Sector Collaborations</i>	268
	<i>The Ansell and Gash Model of Collaborative Governance</i>	271
	<i>Collaborative Governance and Performance: The Role of Cross-Sector Capabilities and Public–Public Capabilities for Cross-Sector Collaborations Involving Governments</i>	272
	<i>Collaborative Governance and Accountability Issues</i>	276
	<i>Conclusion</i>	278
	<i>References</i>	279

11 Conclusions	285
<i>Reference</i>	290
References	291
Index	317

LIST OF FIGURES

Fig. 2.1	Policy cycle and strategic elements	39
Fig. 3.1	Value creation and value appropriation in private organizations	55
Fig. 3.2	The public value governance triangle (PGVT): Illustration from conditional cash-transfer programs	65
Fig. 4.1	Principal-agent model	75
Fig. 4.2	Sequence of decisions in the incentive contract between Herod and Matthew	82
Fig. 4.3	Example of a principal-agent decision tree	98
Fig. 5.1	Theory of change: an illustrative example in education	125
Fig. 6.1	U-form in public organizations—example of a maternity hospital	151
Fig. 6.2	M-form in public organizations—police department example	153
Fig. 6.3	Matrix organization—multicampus university example	155
Fig. 7.1	External fit and strategy implementation at US gymnastics	174
Fig. 8.1	Power-interest grid—example of the decision of reopening schools during the COVID-19 pandemic	210
Fig. 9.1	Types of goods	230
Fig. 9.2	Modes of provision of public services	234
Fig. 9.3	Choosing the mode of delivery	245

LIST OF TABLES

Table 8.1	Stakeholder typology based on power, legitimacy, and urgency attributes	212
Table 10.1	Major divergent and convergent points between strategic alliances and cross-sector collaborations	267

PART I

Foundations



Introduction

In 1959, Berry Gordy Jr., a songwriter and producer, who was also a former blue-collar auto plant worker, founded Motown Records in Detroit, Michigan, United States. Motown became one of the most successful businesses in the history of the music industry. Superstars like Marvin Gaye, Michael Jackson, Smokey Robinson, Martha Reeves, Diana Ross, Stevie Wonder, and groups like The Four Tops, The Jackson Five, The Marvelettes, The Supremes, and The Temptations, to name a few, sparked an esthetic revolution in the show business with their unique songs and style.

The value created by Motown is immense. Now belonging to the giant Universal Music, Motown's catalog, filled with soul and pop hits, has an economic value that is hard to calculate. While Motown's artists generated economic rents for firm's shareholders and executives and contributed to social and economic inclusion by activating supply chains in the entertainment industry, they have also influenced significant changes in modern society. These artists played a crucial role in disseminating African American heritage across the world and breaking racial barriers present in larger portions of US society in the decades of the 1960s and 1970s by entertaining both Black and white audiences. Their high-quality artistic expressions fostered feelings of pride and belonging within Black communities. These expressions played a supportive role in the efforts of the

Black Baptist church and other organizations in the civil rights movement, aiming to promote integration and challenge racial stereotypes.

Although the value created by Motown was appropriated unevenly among certain stakeholders compared to others, this organization serves as a prime example of how for-profit firms can facilitate the creation of both economic and social value.

Several factors explain Motown's success. One obvious explanation is the entrepreneurial and far-sighted orientation of Berry Gordy, who was able to create a successful business model. Drawing from his experience in Detroit's assembly lines, he translated operational strategies proven successful in the automotive industry to the music business. Specialization, standardization, division of labor, and processes to ensure quality control were implemented at Hitsville, USA, Motown's headquarters at 2648 West Grand Boulevard, Detroit, where most of the soul and pop music hits of the 1960s were conceived, produced, and recorded. In addition to his business mindset, as a songwriter and producer, Mr. Gordy also had an acute perception of music, enabling him to identify promising artists, producers, and choreographers and to acquire the best equipment for song production. In other words, he could identify, attract, and orchestrate the necessary resources and capabilities to achieve the envisioned goals.

A significant factor contributing to Motown's success hinged on the ability to engage with audiences beyond Detroit (indeed, the label's name alludes to Detroit as the Motor City in the United States—Motor Town). The so-called Motown Revue comprised tours featuring the label's roster in various Eastern and Southern locations in the US, fostering connections among both Black and non-Black audiences, including segregated cities where Black artists faced violent assaults from white supremacists. The capability to manage relationships with a myriad of stakeholders and recognize shared and differing interests was crucial in disseminating Black culture, even in racialized and hostile areas. And, of course, these tours also helped to increase sales records, revenues from concerts, and advertising.

Goal setting, a clear sense of mission, resources, and practices to achieve expected goals and abilities to identify stakeholders' needs and manage relationships with relevant actors to assure the creation of value represent, indeed, some strategic management concepts deployed by several private organizations to attain their economic objectives. It is true that a massive portion of Motown's success can be attributed to

the utilization of strategic management concepts, but it is essential to acknowledge that value creation for Motown would not have occurred without the contribution of public and nonprofit organizations.

The most invaluable asset of a music record company is its artists. In the 1950s, Detroit had plenty of groups formed by young talented artists singing in the streets without any instrumentation. Among them was the influential artist Smokey Robinson, future leader of The Miracles, author of hits like “The track of my tears” and “My Girl” who eventually became Vice President of Motown. Duke Fakir and Levi Stubbs members of the Four Tops as well as Otis Williams and Melvin Franklin, founders of the Temptations, were also among the high-quality teenagers harmonically signing loving songs with the doo-wop styles in Black neighborhoods of the motor town, who eventually became Motown’s major stars in the next decades.

But how was it possible to have such an amount of talented and musically liberated teenagers in the same city, at the same time? Was it just a coincidence? Was it about something in the water people drank in Detroit that gave musical gifts to anyone who drank those waters? None of these possibilities seems to be plausible. Yet, the reason Motown in the 1950s and 1960s was able to access highly qualified musicians has its roots exactly to what inspired Berry Gordy to define the name of his company: the auto industry in Detroit.

Driven by the booming automotive industry, in the first half of the twentieth century, Detroit experienced a huge population increasing from around 300,000 in the 1900s to almost 2 million inhabitants in the mid-1950s. Immigrants and migrants from other parts of the United States have moved to Detroit in pursuit of better living conditions. The establishment of major firms like Chrysler, Ford, and General Motors has increased the demands for public services, especially in education. A new middle class in the city pressured the city council to invest more in education over the first decades of the century, and more schools were built, more teachers were hired, and innovative programs to assure that children were well-educated were made, benefiting not only white populations, which until the decade of 1970 comprised most of the population in Detroit, but also Black populations living in underserved regions.¹

¹ For more information about the economic rise and fall of Detroit during the twentieth century, please refer to Farley et al. (2000). A comprehensive history about how the Detroit’s education system evolved can be seen in Mirel (1999).

Among these initiatives, a massive program of music education in public schools played a leading role in the nurturing of future Motown's artists. Guided by high-caliber and professional music teachers, students were exposed to music theory and classical European music, in addition to the traditional marching-based music. Actions to incentivize students to attend classic music and opera concerts and other artistic manifestations complemented the music training enabled by public investments and fostered the emersion of a unique esthetic among young Black students combining appropriate musical training, African heritage, and the cultural background from the US Southern States. Most Motown performers and songwriters of classical hits like the brothers Eddie and Brian Holland were exposed to music in public schools. Groups like the Supremes, led by Diana Ross, met, and rehearsed at their schools. Other Detroit' artists not attached to Motown, like Aretha Franklin, and artists outside of Detroit, like Michael Jackson, born and raised in Gary, Indiana, benefited from public investments in music education. Without public investments in education for individuals with visual impairments, probably one of the most talented artists ever, Steve Wonder, could not develop their abilities in plenitude.²

Despite the importance of government investments in public education in enabling private interests, in the case of Motown, a special type of nonprofit organization also contributed to nurture gifted musicians: the Black Baptist church. This nonprofit organization is one of the most prominent Black institutions in the United States. It represents a substantial portion of the Black community in the country, not only by influencing the values and the morality of communities but also by addressing structural problems faced by African Americans, being a pivotal institution in the Civil Rights movement. Churches also accompanied the mass migration from southern to northern states in the twentieth century and promoted support to Black communities in the regions where they were settled, which included Detroit.³

Along with the preaching, the signing is central to worship in Black Baptist churches. Both are “*magnets of attraction and the primary vehicles*

² Early (2004) and McCarthy (2013) provide evidence on the role played by public investments in music programs in Detroit's schools for the development of Motown and of the pop and Black music.

³ Refer to Soule and Dyke (1999) for depiction of the importance of churches in political organization of Black communities in the United States.

*of spiritual transport*⁴ and play a leading role in attracting audience to churches. The vocal ornamentation that characterizes the soul music is largely inspired by the gospels of Black Baptist churches. As several icons of soul music, almost all of Motown's artists had their first contact with music in the wooden benches of churches and eventually became singers during worship. In Black Baptist churches, since their childhood, future musicians like Aretha Franklin, Marvin Gaye, and Diana Ross⁵ exercised the moaning, the pitch glides, the syncopation, and the elongation that were later transferred to the popular music.⁶

Although such a value-creating combination of business policies conceived in the private sphere with public and nonprofit policies explains a significant portion of the success of Motown, this story is not an isolated case. The successful examples of Silicon Valley in California, Route 128 in Massachusetts, and the Research Triangle in North Carolina exhibit the same pattern of complementarities between the entrepreneurial spirit present in private enterprises, public investments, and nonprofit organizations. Examples of nonprofits include Stanford, Duke, and Harvard, all committed to education and research. Without cross-sectoral synergistic efforts among organizations that are oftentimes seen as silos that do not interact, though they do, several technological innovations present in our lives from smartphones to solar energy would not be possible without efforts from public, private, and nonprofit organizations.⁷

Complementary actions between organizations of several types also contribute to addressing grand challenges such as climate change, health, and well-being. Effective responses to the unprecedented pandemic of

⁴ Abbington (2009, p. 40).

⁵ In an interview, Duke Fakir, the legendary singer of the Four Tops exemplifies the role of churches to nurture musicians in Detroit: *“first of all, Detroit is full of churches. It’s one of those cities in which gospel music has always been prevalent, jazz music had always been prevalent. Back in the day this was a jazz town. Big bands back in the day used to just come and hang around Detroit because there were so many great musicians here. It’s been like that, always down through the years. And when I was born we went to church, just like a couple of the other guys, so we sang all our lives, pretty much. I’ve sang all my life! My mother worked at church and my cousins and I, we all went to choir, we grew up there”* <https://thequietus.com/articles/03956-the-four-tops-interview>.

⁶ See Legg (2010) for more about the characteristics of music played in Baptist Black churches.

⁷ See Adams (2005) and Mazzucato (2013).

COVID-19 hinged on intense coordination of efforts among governments, for-profit pharmaceutical companies, and nonprofit research institutes to perform research and development activities to obtain effective vaccines. Without efforts involving public authorities, firms like Pfizer, BioNTech, Astra Zeneca, and nonprofits like Oxford University, probably, I would not be able to draft this book after the pandemic, and, probably, readers would not be able to read it.

Coordinated actions led by for-profit firms articulating public and nonprofit organizations have also been contributing to the attainment of the United Nations Sustainable Development Goals (SDGs). Natura, a world-class firm in cosmetics is known for engaging communities, and public and nonprofit stakeholders in actions that reduce deforestation in the Amazon Forest and promote economically and environmentally sustainable supply chains through the principles of polycentric governance idealized by the Nobel Prize winner, Elinor Ostrom. In some cases, shareholders can guide actions to help the firm reconcile financial and social goals, creating private and public values appropriated by several stakeholders beyond shareholders and financiers.⁸

Likewise, public organizations can engage firms and nonprofits in the pursuit of several policy goals. Corfo, the Chilean agency of economic development played a leading role in the development of the local salmon industry by putting together nonprofit organizations, local firms, and multilateral organisms and coordinating actions for technological transferring, cultivation, and access to global markets that were key to make Chile one of the world leaders in the trout and salmon exports.⁹ Governments can also articulate firms and nonprofits for the provision of services normally supplied by public authorities through public-private partnerships¹⁰ and other contractual arrangements to benefit citizens, like in social impact bonds, whereas governments can support cross-sector alliances to address a major problem triggering payments to cross-sector

⁸ Anita McGahan and Leandro Pongeluppe (2023) as well as Aline Gatignon and Laurence Capron (2023) illustrate how Natura can simultaneously pursue financial and social goals through extensive collaboration with local communities, nonprofits, suppliers, and governmental bodies. Evidence also suggests that shareholders play a pivotal role in supporting relational strategies between Natura and the surrounding communities, by blending instrumental and morally oriented principles. See Lazzarini et al. (2020).

⁹ Lazzarini (2015).

¹⁰ See Quelin et al. (2019).

partners contingent to the attainment of goals.¹¹ In a similar vein, nonprofits can lead collaborative efforts with firms, governments, and multilaterals to attain their missions and create public value as in the case of the *Médecins Sans Frontières* providing healthcare in underserved regions or Greenpeace in its actions to protect the environment.¹²

The examples above provoke significant reflections aligned with the objectives of this book. Firstly, they underscore the critical role of strategic management for public and nonprofit organizations. Despite having distinct missions, objectives, and constraints compared to their private counterparts, these organizations must strategize effectively to accomplish their organizational goals. As evidenced by the Motown example mentioned earlier, whether strategizing independently or in collaboration with private entities, the strategic processes of public and nonprofit organizations can carry profound implications for both public policies and business strategies. These implications can enable the creation of value for a broader range of stakeholders.

Likewise, either through collaborations with governments and nonprofits or simply by considering the aspirations of these actors and leveraging the externalities facilitated by public and nonprofit organizations in their strategizing, for-profit firms can enhance their capacity to pursue organizational goals and create value embraced by myriad of stakeholders, including shareholders. Specifically, understanding how government operates becomes crucial for firms reliant on governmental support to achieve their financial objectives and, eventually, their socially oriented goals. Such enhanced understanding is key for effective business policies in regulated sectors and in industries where public and private interests overlap and coevolve.

Along these lines, in a world where boundaries between public, nonprofit, and private organizations are blurred, and some degree of cross-sector collaboration is needed, understanding the aspirations and the potential of non-governmental actors, either private or nonprofit, is necessary for public managers and policymakers responsible for designing, implementing, and evaluating public policies. The accumulated knowledge in strategic management can be instrumental for governments in

¹¹ Lazzarini et al. (2021), Economy et al. (2023), and Faulk et al. (2020) discuss social impact bonds and some of their economic and social implications.

¹² More about cross-sector collaborations in Chapter 10.

identifying the conditions under which public service performance and public value creation can be achieved concomitantly.

WHY DO PUBLIC AND NONPROFIT ORGANIZATIONS NEED STRATEGIC MANAGEMENT?

There is a vast number of definitions for the term strategy, and most of them are crafted to deal with settings characterized by competition and rivalry among firms, and built under behavioral assumptions that firms are focused only on reaping financial goals, which may mismatch with the public and nonprofit context. Within the integrative view of this book, a general definition must be broad enough to encompass the peculiarities of public, private, and nonprofit organizations, but narrow enough to be actionable, meaningful, and sensible. In line with this approach, I propose that the strategizing process is inherently scientific and theory-based. Managers across public, private, and nonprofit sectors develop theories and hypotheses to address organizational objectives, akin to equations where organization-specific theories, reflecting decisions and rules, are placed on the right-hand side to achieve value creation objectives on the left side.¹³

In this book, I define strategy as *structured processes that assist organizations of all types in identifying, acquiring, and preserving the distinctive factors that enable them to translate their ambitions into superior performance, while accounting for the interdependence between their internal and external environment.*

While the definition above aligns well with organizations of all types, it is particularly applicable to public and nonprofit entities. Consistent with the theory-based view of strategy, these organizations can formulate theories of change to attain desired performance levels, considering their specific goals and constraints. Notably, disparities exist between private and public/nonprofit organizations regarding goals, incentives,

¹³ Teppo Felin and Todd Zenger (2017) provide an insightful portrait about the importance of strategies based on unique theories at the firm-level. In the “theory-based view”, managers function as theorists by crafting theories to assist organizations in creating value. There is a growing consensus regarding the role of the strategist within an organization as someone responsible for guiding the organization towards a position of enhanced value, supported by causal paths established by established theories and/or causal-based evidence—see Lazzarini and Zenger (2023).

constraints, and accountability standards.¹⁴ Recognizing these distinctions when applying the accumulated knowledge in strategic management to public and nonprofit sectors is crucial for enabling effective contributions to public policy.

Like private firms, public and nonprofit organizations may also benefit from strategic planning to define their goals, identify the necessary resources, and devise actions and processes conducive to achieve these goals, eventually in collaboration with organizations from different sectors.¹⁵

Formed by individuals typically acting in their self-interest and subject to extrinsic and intrinsic sources of motivation, organizations of all types can rely on structures of rewards and punishments to influence efforts from employees, managers, and suppliers to achieve strategic intents. Payments (or sanctions) contingent upon the attainment of expected outcomes can occur in private organizations when salespersons meet (or do not meet) expected sales goals, in nonprofits when managers attain (or do not attain) fundraising targets, and in public organizations, such as when bonuses are offered to police officers if homicides and street robbery records in territories under their authority reduce. Similarly, public, private, and nonprofits frequently provide non-pecuniary awards and recognitions that induce efforts as effectively as monetary-based accolades.

Organizational design and decisions related to the allocation of decision rights are strategic and can also exert a positive (or negative) influence on performance, whether in the context of public or nonprofit organizations independently, or in tandem with incentives and performance management systems.¹⁶

For instance, consider a scenario where a government alters the allocation of decision rights, opting to enhance tax collection by granting greater autonomy to revenue agents, allowing them to determine which taxpayers are more likely to engage in tax fraud and evasion. While the specific knowledge of these agents is pivotal for maximizing expected results in a more decentralized setting, their efforts may be suboptimal if the government does not implement payment systems that reward agents

¹⁴ Ring and Perry (1985).

¹⁵ John M. Bryson (2018).

¹⁶ See Brickley et al. (2001) for insights into the importance of the triad: incentives, decision rights, and performance management for organizational performance.

for their additional efforts. It is important to note that in many countries, revenue agents and tax collectors are tenured civil servants with job security and fixed salaries, regardless of their efforts. In the absence of mechanisms rewarding extra efforts or penalizing a lack thereof, inducing different behavioral responses from these agents is unlikely. Even if incentives are promised, additional efforts might not be observed without performance measurement systems capable of assessing the outcomes of each agent. This situation can be even worse in the absence of incentives (rewards and punishments) and performance management systems, which is a common feature in public and nonprofit organizations. Without these motivating factors, unless the agents are intrinsically motivated to perform their duties, their fixed salaries and the absence of performance assessment or consequences for lack of effort or misbehavior may not lead to public value creation and the attainment of strategic goals.

While necessary to achieve strategic objectives, the existence of organizational structures to oversee the conduct of agents and hold them accountable is not a sufficient condition to ensure the creation of public value, especially when principals are uninterested or uninformed. Consider the strategic problem of overlooking intelligence activities in democratic settings, which involves handling sensitive information that could potentially threaten the security of nations. Despite the secrecy surrounding certain intelligence functions, such as covert actions in foreign countries and anti-terrorism missions, effective oversight from elected representatives—typically carried out by congressional members of the Senate and the House of Representatives—is crucial to ensure that these activities are performed within the bounds of existing laws. However, the effectiveness of oversight can face challenges not only due to inherent information asymmetries between committee members and intelligence officers but also as a result of inadequate monitoring by disengaged or uninterested politicians. Historical trends of abuses by intelligence agencies in the United States¹⁷ and more recently in Brazil, where intelligence officers of the Brazilian Intelligence Agency (Abin) were investigated for structuring an illegal apparatus within the agency for personal and political benefits during 2019 and 2022,¹⁸ serve as

¹⁷ Johnson (2014).

¹⁸ For more details about the Brazilian intelligence issues, refer to <https://apnews.com/article/brazil-ramagem-bolsonaro-police-spying-18d039c5e111e18341afe8ee2fb4428d> and <https://www.france24.com/en/americas/20240131-lula-fires-brazil-s-intel-agency-no-2-over-alleged-illegal-espionage>.

illustrative examples highlighting the strategic importance of organizational design in the government context. Definitely, there is nothing more favorable for malicious agents than having uninterested or uninformed principals. If the principals themselves are also malicious, the issues become even more severe.

These examples also highlight why the lack of alignment between incentives, organizational design, and performance management can impede productivity and the delivery of goods and services with an adequate cost versus benefit relationship. This mismatch often results in government services being perceived as inferior to those provided by the private sector. Strategic management lenses are crucial in helping public and nonprofit organizations understand why certain configurations, instead of being value-creating, are value-destroying. Understanding these aspects is essential for taxpayers, donors, and especially for strategists responsible for designing, implementing, and evaluating business and public policies to address pressing social needs. This is particularly important for policies targeting those who are more vulnerable in society and lack the means to afford private services, relying instead on public and nonprofit organizations.

In addition to emphasizing important aspects affecting performance within the internal organization, strategic management lenses can also prove useful for public and nonprofit organizations managing relationships with stakeholders beyond their boundaries and engaging in cross-sector relationships. Similar to private firms, a strategic management orientation is crucial for public and nonprofit organizations when making scope and diversification decisions. Over the past decades, several governments have adopted market-friendly reforms, promoting the involvement of private and nonprofit actors in delivering goods and services that were traditionally provided by public authorities. However, even as some governments have reduced their scope and delegated functions to external actors, they still play a leading role in providing various services. This may involve regulating activities with positive and negative externalities and natural monopolies or orchestrating cross-sector collaborations with private and nonprofit organizations through a myriad of organizational arrangements, such as concessions, public-private partnerships, and management contracts.