STRATEGIC MANAGEMENT IN THE PUBLIC SECTOR

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Abstract

New Public Management and Governance have shaped the public sector in the last twenty years. Strategic management has become a standard tool for the public manager to create value and to shape the organization. In the light of growing complexity, standard models such as MBO or the Deming cycle are arriving at limits to describe what public service organizations must be able to accomplish in terms of performance and satisfaction of stakeholder expectations. Standard prescriptive literature suggests using iterative, step-by-step models which guide the manager through the strategic management cycle. Logical incrementalism however points towards a dynamic approach with tactical shifts and partial solutions using consciously structured flexibility. Based on logical incrementalism and existing literature, the researcher proposes using a “strategic triangle” with three management dimensions, combined with “tactical mapping”, as a guiding and communication instrument for management and staff. The strategic triangle and logical incrementalism are tested by exploring a case study of a public service organization, the Training Center for Development Cooperation (V-EZ), which has formulated a new strategy in 2005. First findings indicate the strategic triangle and tactical mapping could prove useful in consulting, management and teaching, but must be validated by further research.

Introduction

From the beginning of the 80ies the public sector has seen a large influx of private sector principles and tools into the public sector in the attempt to improve efficiency and effectiveness. The reform movement can be summarized as “New Public Management”, or “New Steering Model” in Germany, and has been implemented with different results almost worldwide.

Since the 90ies “Governance” has emerged as an additional concept, which some see as an enrichment of the NPM-philosophy, others as a paradigmatic shift towards a more outward focused public sector, emphasizing co-operation, democracy and citizen participation. Governance is in this paper is understood as the shaping and optimizing of the interdependencies between actors in a society which cooperatively attempt to produce public value (Kooiman, 1999; Schedler & Siegel 2005; Benz, et al., 2007; Schedler 2007).

This paper will look at strategic management for public sector organizations and what specific challenges the public sector poses when strategic management is applied.

Basis for this will be a case study on the V-EZ, the department 8 of InWEnt –Capacity Building International, Germany; a human resource and capacity building institution in the field of development cooperation, which is set up as a public utility limited liability company financed by the Federal Ministry of Economic Cooperation (BMZ). Shareholders are the Federal Republic of Germany, the Carl Duisberg Gesellschaft e.V. (CDG) and the German Foundation for International Development (DSE).
Although its roots go back to 1968 the Training Center for Development Cooperation (in the ongoing text the V-EZ), exists formally since 2000 with its own premises in Bad Honnef, Germany and offers training courses in the areas of:

- Intercultural competencies and country specific orientations
- Development policy
- Consulting and management competencies
- Language
- Specific training for partners and spouses of ex-pats

It has trained over 1,700 participants with a budget of 3.9 m Euro in 2008 in its current mandate “Preparation and training for international deployment of experts in development cooperation”.

Since 2005 the V-EZ has given itself new strategic aims:

1. Expansion of preparation towards international human resources development
2. Expansion of customer groups (cross-departmental, private sector)
3. Internationalization / European focus (trainers, offers, partnering with international training centers)

These new aims were based on an analysis documenting change in international cooperation and development cooperation: globalization, donor harmonization and multilateral approaches. Specifically the Paris Declaration, drafted by the Organization for Economic Co-operation and Development (OECD, 2005) and endorsed in March 2005 by over one hundred ministers of donor and developing countries, has impacted the strategy of the V-EZ. The Paris Declaration calls for joint progress toward enhanced aid effectiveness by following the principles of

- **Ownership** - Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.
- **Alignment** - Donor countries align behind these objectives and use local systems.
- **Harmonization** - Donor countries coordinate, simplify procedures and share information to avoid duplication.
- **Results** - Developing countries and donors shift focus to development results and results get measured.
- **Mutual Accountability** - Donors and partners are accountable for development results.

Furthermore the strategy of the V-EZ was determined by a change in expectations towards implementation of trainings such as cost efficiency, outcome orientation and training instruments. Changes of trainings aims and target groups, such as international employability, diversity, continuous learning, were also taken into consideration.

To achieve these aims, the V-EZ aimed to expand its mandate to become “the international HR development institute of the German development cooperation” and has pursued its new strategy since 2005.

**Main concepts and theories impacting strategic management in the public sector**

The definition of what should be done for a society by the state and what not is a process of constant deliberation, negotiation and bargaining and is achieved through the process of politics by politicians who then create policies (Moore, 1995; Van Horn, et al., 2001). Other interest groups such as associations, citizen action groups, beneficiaries, the media and other administrative bodies also impact this deliberation process. The interpretation of policy then sets aim for public organization to produce products and solve social problems (Wildavsky, 1979; March & Olson 1995).
Figure 1: Political and management rationale (Thom & Ritz 2008, p. 30; Schedler & Proeller 2000, p. 64)

In the past, in the classical definition of Max Weber, administration is only the application tool to administer policy (Weber, 1976). Due to the growing complexity of social problems, the growing demands of citizens towards administration to be treated as partners and customers with a right to more quality and quantity, and the acceleration of social change, public administration has become more and more as a partner of politicians in the definition of what value should be created in what way (Kooiman & van Vliet 1993; Joyce, 2000). The interpretation of policies and the translation into management rational remains iterative and conflicted, often resulting in compromises (Thom & Ritz 2008).

The rational planning model, following a step by step process in terms of:

1. Definition and analysis of problems,
2. Definition of objectives
3. Means-ends analysis including searching for alternative solutions
4. Cost-benefit analysis
5. Analysis of alternatives
6. Choice and execution of best alternative

… seems to be unrealistic in the face of complex social interaction (Bogumil & Jann 2009). The following theories give a more adequate reflection of what is actually happening in public management and can widely be found referred to in relevant literature:

“Bounded rationality”, the concept that reality is too complex and too rich in information to be fully understood by individuals to make adequate decisions - in terms of goal definition and choice of alternatives - can be seen as a basis of how individual and groups shape strategy in the public sector (Simon, 1997; Kehlmann, 2003). Lindblom coined the term of “management of muddling through” (Lindblom, 1959), claiming that politicians due to bounded rationality base solutions on past positive experiences and maximize their efforts to avoid failure rather than to seek appropriate solutions. Incremental politics according to Lindblom include:

- Marginal (incremental) improvement with orientation at the status quo
- Sequential problem solving, instead of finding a “final solution”, preferably searching the appropriate direction
- Ends are adjusted to means, main impulses do not spring from overarching political aims, but from prevailing grievances.

Furthermore incremental politics is disjointed:

- Problem solving is not achieved hierarchically but uncoordinated from a number of decision makers
- Interests and information from many parties is considered
- Fused and consolidated in a process of partisan mutual adjustment
Quinn expanded this concept by “logical incrementalism”, a process of iterative small steps in management, by which new ideas and changes are tested to avoid risk and damage to the organization while striving to meet overarching strategic aims (Quinn, 1980; Quinn & Voyer 1994). A further concept which describes management and means-ends definition in the political-administrative system is “Satisficing”. Satisficing describes the process by which solutions are defined not in the degree to which they solve problems but in relationship to their ability to satisfy the interests of all relevant actors involved (Mayhew, 1974; Bogumil & Jann 2009).

Bounded rationality, “muddling through”, logical incrementalism and satisficing can be seen as cross cutting themes in all steps of strategic management in the public sector and all convey the importance of negotiation and bargaining. A public administrator must be ready to be a key player in this process and be able to anticipate issues in public discussion just as the manager of a private company has to deal emerging market forces.

**Specific characteristics of the public sector which shape strategic management**

Nutt and Backoff suggest that the authorizing environment and the interdependent actors can be considered the actual market of the public organization, the interests of which it must strive to satisfy in the act of strategic management. “How things are viewed or understood by stakeholders holds more salience (to strategy) than the validity of claims.” (Nutt & Backoff 1992, p. 14). Nutt and Backoff set public organizations apart from private ones in terms of environmental and transactional factors and internal processes. The environmental factors include the influence of the political level and constraints put on public organizations by legal mandates and “market forces” of key actors and funders which expect public organizations to collaborate to achieve social aims. The transactional factors include coerciveness, scope of impact which is much broader than in a private company, public scrutiny of all transactions and thus the need for accountability and ownership which is collective and thus management must include societal values such as fairness, openness, inclusiveness, honesty. Looking into the organization, the goal setting processes are conflicted since there is no common bottom line such as profit, which makes also measuring performance complex and difficult. Incentives are difficult to set since employees enter the public sector not seeking primarily financial gains, but are motivated by interesting tasks, important roles, and ethical values. There are also limits set to internal processes by legal constraints.

These above theories and the characteristics of the public sector in regards to “market environment” and “success” have a certain impact on the models available to strategic management (Alford, 2001):

**Strategy as positioning or scope**: The more public an organization is, the more it will have to position itself within the authorizing environment as its “market” in terms of producing outcome and adjusting its scope.

**Strategy as setting long-term direction**: Due to the turbulent nature of the authorizing environment (Lax & Sebenius 1986; Moore, 1995) a core unit of the state will have more difficulty in setting long-term direction than a more peripheral one which delivers concrete products and services.

**Strategic fit** can be seen here by maximizing public value while at the same time attracting a maximum of permission and resources (Heymann, 1987). This might lead to trade-offs between what is perceived valuable and acceptable to the political environment.

**Strategy as stretching competencies**: Not only must the public manager use internal capabilities but rather rally support from co-producers and external actors (Brudney & England 1983; Osborne & Gaebler 1992), which means that the organizations strategy must be attractive enough for outside actors.

**The strategic triangle**

Based on the above literature review, the author of this paper proposes three main “management dimensions” in strategic management in the public sector:

- **Political**
- **Cooperation**
- **Operations**

The political factor mirrors the need to get political support as “… an axiomatic principle of public sector management.” (Heymann, 1987; Joyce, 2000, p. 42). Cooperation takes the new public management paradigm of governance into account, the fact that cooperation and networking between social actors has gained increased
importance (Osborne, 2006). The operations dimension takes into account efficiency and effectiveness. The researcher decided to adapt the strategic triangle by Moore (1995):

![Figure 2: The strategic triangle (adapted from Moore, 1995)](image)

The researcher proposes that the ends of the triangle must be managed by the public manager if he or she wants to implement strategy and create value for the society. This will happen even if the model is not known to the subject, since according to literature these management dimensions always have relevance when managing strategy in the public sector. Thus certain observations can be made in social reality, observing the relevancy of the triangle and factors impacting the dimensions during implementation, which in turn are responsive.

Furthermore the researcher assumes that due to the typical incremental processes involved and due to the political and multi-stakeholder environment, the incremental process prevails over a synoptic process.

**The Case: The Training Centre for Development Cooperation**

Based on interviews and on the annual objectives the researcher reconstructed a chronology of the events, milestones, adaptations relevant to the strategy and strategic management of the V-EZ up to today.

Figure 3 shows the chronology of events as a summary in a tactical time line of the V-EZ with the challenges facing it in the mid-term and long-term future.
Evidence shows that the organization was managed strategically very close to Quinn’s concept of “logical incrementalism” in terms of strategic planning, integrating strategy, managing incrementally and blending intended and emerging strategy. Quinn and Voyer (1998) argue that the top executive will focus on key themes or thrusts which maintain focus or consistency in the strategy. In the case study these themes are “From training to HR development” “From national to international”. Current tactical implementation such as pilot projects and “Modern Preparation” is still in line with these themes and gives the organization focus and integrate with prior tactics such as performance improvement. These themes are communicated again and again in the organization, and are well reflected in the answers given by respondents.

No holistic strategic plan or change plan existed, rather the strategic vision was formulated and strategic themes established - “Broad initiatives that can be flexibly guided in any of several possible desirable directions.” (Quinn & Voyer 1998, p. 188). These were incorporated in the annual divisional objectives and the structure and processes were adapted to the needs of the strategic themes, specifically as the opportunities arose to do so. A setback in extending the mandate was offset by focusing of innovation and establishing international cooperations. As Quinn and Voyer (1998, p. 189) state it was a series of “tactical shifts and partial solutions”, which would encounter little opposition. Especially internal reform, quality management, process optimization, restructuring and standardization can be seen as a series of tactical adjustments to create organizational readiness, independent of the fact if the mandate could be changed or not. It is, as Quinn and Voyer (1998, p. 189) phrase it: “Experimentation (that) can occur with minimized risk”, or as one respondent replied: “trial and error”, or another: “our strategy went zigzag”.

Segments of strategy were ready at different time periods. Currently the organization is focusing more on innovation and pilot projects, focusing now on its core competencies and its comparable competitive advantage.

Looking ahead, the organization has to take care to, as Quinn and Voyer put it: “… to continue the dynamics and mutate consensus.” (1998, p. 188). “New” strategy can become “old” strategy very quickly and new stimuli will be needed to keep adaptability in flux.

Discussion of the strategic triangle observed in the case

The management dimensions of the strategic triangle are interdependent. Only with convincing the ministry to extend the mandate, can the organization enter new forms of cooperations and change operations. New cooperations mean changing operations and influencing the political level – a suggestion of a respondent was to “form strong alliances and then approach the ministry with mutual interests”. New forms of operations will attract different partnerships, but will sooner or later question the legitimacy of the new services provided. Are they still covered by the current mandate? Will the political level see the push for innovation as a positive development? One respondent clearly stated that the organization is expected to approach the ministry with new concepts and cannot rely on the political level to “show the way forward”.

Application of the strategic triangle in the coding process however reveals that there is a difference in the dimensions impacting the formulation of strategy, the implementation and the adaption of strategy. The main dimensions for the formulation of strategy can be found at the political level. Several times the theme “Securing the future” and “Internationalization” emerged, showing that strategy was formulated in alignment to international political developments, specifically the Millennium Development Goals in 2000 (UNGA, 2000) and the Paris Declaration in 2005 (OECD, 2005). The question posed by many respondents was: “Is the value we are producing significant enough to secure the future in light of internationalization of development cooperation?”. InWEnt, the parent company, is already a product of a merger and the Development Assistance Committee of the OECD writes in the recommendations of its Peer Review Germany (OECD-DAC, 2005): “The German government is encouraged to go further in its reform efforts with a view to joining up the individual structures of German development cooperation into a more cohesive force for development change.” - a threat of a further merger for InWEnt and the V-EZ is quite real.

The reasons given in terms of the cooperation dimension influencing strategy formulation were at best anticipatory. Anticipatory meaning here, that the future needs and interests of the existing cooperation partners seemed to be anticipated by the organization. Management assumed that expanding the mandate of the V-EZ to become an international partner in HR development would be of mutual interest. Events unfolding however proved that the German cooperating partners were not as supportive of these new strategic aims as initially hoped for. A lesson
Ingrained now in most respondents is that cooperation partners are essential for success of strategy. This might be also due to the special relationship the V-EZ has to its cooperation partners, which it terms “customers”, since it is serving almost exclusively the cooperation partners staff. Operations was seen as the third most important point in planning strategy after political and cooperation factors, since increased flexibility and new and higher quality services was assumed desirable by the cooperation partners, an assumption which proved correct. In all aspects the strategy can be labeled as “pro-active”. The organization is taking a “prospector” stance by seeking new markets and new alliances and creating new services (Miles & Snow 1978; Nutt & Backoff 1995; Boyne, 2004).

During implementation the dimensions which were impacted and which then changed strategy turn towards operations and cooperation. Operational factors impacting strategy were connected to competencies and capacity, which are recurrent themes up to today. Competencies were seen not being matched with acquisition objectives, but also not with strategic aims. Division management has responded in hiring specialized staff which is qualified in HR development and sending employees to training courses. Strategy was also adapted to the cooperation partners needs, which were anticipated or not. Surprising little adaption is due to political factors. There are several interpretations for this: The political landscape and the environment have not changed drastically since 2005. Most respondents still see “securing the future” as one of the main themes to be dealt with strategically. Another interpretation is that the V-EZ is too far removed from the center of political power to be influenced by its political short term decisions. The division manager respondent to this topic: “When everything is going in a good way, we don’t hear anything from the political level.”

Looking into the future, the respondents were asked to state what could impact the success of this strategy and more respondents replied “competencies”, “commitment” or “cooperation”. But when asked for possible future changes in strategy almost all respondents referred to the upcoming elections and the development of the financial crisis. An interpretation here is a temporal one: While alignment to political aims and adaption to strategy is adamant to strategic success, cooperation and operations dominate on the mid-term or tactical level.

Little or no role play the actual consumers of the service in impacting strategy, although the V-EZ has an intricate monitoring and evaluation system which it uses to respond to participant needs and feedback. It appears that participants do not have enough “political clout” or interest representation to seriously impact strategy and/or that their organizations act on their behalf. Also the service providers are hardly mentioned in terms of strategy formulation or adaption. Respondents however have mentioned that the interests of the ministry, the cooperation partners and the participants are not always congruent and must be dealt with separately.

To summarize: In this specific case the management dimensions “political” and “cooperation” were dominant during planning, while the dimensions “cooperation” and “operations” were dominant during implementation and adaptation.

Looking into the long-term future, political factors dominate the strategy discourse. Cooperation and operations dominate the mid-term and short-term time horizon. This pattern may vary though from case to case. However evidence suggests that the strategic triangle in this particular case was able to document the creation of value by extending or attempting to extend the three corners of the triangle in tactical steps which were in line with logical incrementalism:
Conclusions

Building robust alliances internally and externally is the key to strategic success. The political level might not be able to give direction on HOW to create value. More and more this seems to be the task of the public manager which is challenged to provide answers for the constant development and re-adaptation of what and how. Not only the strategy itself, but a modern understanding of strategic management must be communicated through the organization to form broad support, so that not only strategy is owned but also adaptation is owned by all levels, generally because adaptation will occur on a tactical level.

In general more research needs to be done to find tools for the public sector manager which will help him or her manage and communicate strategy. The multistep, goals-oriented approach appears to be inadequate in the light of growing complexity and also growing flexibility of public service organizations. Logical incrementalism has much to offer: “It suits the ambiguity, uncertainty and changeability of purely public situations” (Alford, 2001, p. 12).

The strategic triangle could serve as a consulting, teaching or research tool. More research needs to be done to validate the application. Benefits are that it provides incremental flexibility, reduction of complexity, creates focus and is easily communicated and understood. Drawbacks are - as the case study shows - that focus can shift over time and that the complexity and breadth of operations is “underrepresented” in the triangle. Most objectives and activities of the organization of the case study were connected to operations. Additional planning tools, such as stakeholder mapping (Scholes, 1989), strategy maps (Kaplan & Norton 2005) or the adaptive matrix of Schedler and Siegel (2005) should be used to analyze preconditions and to plan strategy. The author of this paper also suggests “tactical mapping” as a planning tool to communicate to middle management the incremental fashion in which strategy will be implemented and adapted:
Tactics would be planned and tested to expand the strategic triangle. When successful tactics emerge, they are coordinated to produce synergies and adapt structure, processes and competencies. Both the strategic triangle and tactical mapping need extensive testing and further research to be validated as useful consulting tools.

Acknowledgements

I would like to acknowledge very useful consultations of my scientific advisor Professor Dr. Jonathan Smith, Senior Lecturer at the Ashcroft International Business School, Anglia Ruskin University Cambridge as well the advice given by Dr. John Philip Siegel from Potsdam University, research associate at the chair of Public and Nonprofit Management. Furthermore I would like to thank the managers of the Training Center for Development Cooperation for giving me their time in being available for interviews, especially Dr. Bernd Krewer, the division manager.

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