Strategic management in the public sector: a tool for improving performance of ongoing operations or for redefining performance to meet new challenges?

A CHALLENGE PAPER FOR DISCUSSION

Benedict Wauters

Report to the European Commission’s Public Administration and Governance network

March 2017
## Content

Introduction and explanation of terms ................................................................................................... 6

PART I: Exploring the concepts .............................................................................................................. 9

1. Defining strategy, strategic planning and strategic management .................................................. 9
   a. “Strategy”? ........................................................................................................................................... 9
   b. “Strategic planning and management”? .......................................................................................... 13
   c. The cutting edge? ............................................................................................................................... 14
      i. A transformation process ................................................................................................................. 14
      ii. An issue driven process ............................................................................................................... 19
      iii. A continuous process ................................................................................................................... 24
   iv. Responding to a VUCA world ......................................................................................................... 35
   d. Conclusions ......................................................................................................................................... 41

2. Strategic management in an organizational context ........................................................................ 43
   a. Moving from a bureaucratic to a flexible organizational paradigm .............................................. 43
   b. Channeling insights in different paradigms ................................................................................. 48
      i. Three sources of insight ................................................................................................................. 48
      ii. Operating camp ............................................................................................................................. 50
      iii. Future gazing camp ...................................................................................................................... 51
   iv. Behavior and culture camp ............................................................................................................. 52
   c. Conclusions ......................................................................................................................................... 54

3. Strategic planning and management in the public sector? ........................................................... 59
   a. Public versus private sector characteristics ................................................................................. 59
      i. Starting from value not competition .............................................................................................. 59
      ii. Other presumed differences ........................................................................................................ 64
   b. Three sources of insights for the public sector .......................................................................... 67
   c. Stewardship via transition management ...................................................................................... 75
d. Conclusions................................................................................................................................. 80

PART II: Issues in advanced strategic management.............................................................................. 83
1. Acting simultaneously today in support of different time horizons ............................................. 83
2. Anticipating the future .................................................................................................................. 95
   a. Scenario planning ..................................................................................................................... 95
   b. Weak signals ........................................................................................................................... 95
3. Conclusions.................................................................................................................................... 96

PART III: Cases ....................................................................................................................................... 97
1. Case: Kaplan and Norton’s system ................................................................................................. 97
   a. Description of the system ......................................................................................................... 97
   b. Reflections .............................................................................................................................. 112
   c. Conclusions ............................................................................................................................ 112
2. More public sector cases .............................................................................................................. 112

ANNEX: Bryson’s (2011) comprehensive process .............................................................................. 113
Introduction and explanation of terms

The title of the report is based on a statement by Poister (2010) who in his article on the future of strategic planning in the public sector states: "Clearly, strategic planning is not always aimed at improving performance of ongoing programs. Often, it redefines performance to meet new challenges..." (p. 253). These are ultimately the questions the report wants to ask and address: should strategic management support both aims? Can it? How to approach it?

Poister (2010) states that, while still unheard of in the US in 1980, strategic planning is now ubiquitous. The Government Performance and Results Act (GPRA) had a large role in this in the US. Yet “We still know little empirically about how public sector organisations use strategic thinking in practice” (Johnsen, 2015, p. 244). Hence, this report will be about elaborating concepts rather than providing a thorough empirical assessment of what strategic management processes actually exist in the public sector. It also does not aim to be comprehensive nor to provide a template. Its goal is only to broaden and stimulate the discussion regarding a fruitful application of strategic management in the public sector.

First, the general concepts will be discussed. This report aims to explore a diversity of perspectives regarding the concepts of strategy, strategic planning and management in the public sector. It will draw however on both public sector literature as well as the private sector, including journals like Harvard Business Review, McKinsey Quarterly and Sloan Management Review,... in order to broaden the perspective. It covers a period of thinking about strategy from roughly the 90’s up until today.

From this discussion it will become clear that concepts relating to strategy should always be situated within broader paradigms of organisation. Hence, the meaning of the concepts relating to strategy will be explored within the bureaucratic paradigm of organization as well as the flexible, networked one.

As the report draws also on the broader, private sector oriented literature, it will devote some attention to understanding what are the essential differences between the public and the private sector. This understanding is then integrated into the discussion on the nature of strategy, strategic planning and management for the public sector. In this way, it is avoided that inappropriate concepts are integrated as well as that distinct demands pertaining to the public sector are overlooked.

Next, more specific issues, generated by the above discussions, will be discussed in separate chapters. Finally, to tie all of this together, the report will describe and reflect on one of the most popular models in the sector, as developed by Kaplan and Norton (2008). Other cases will also be added.

---

2 “Strategic management thinking and practice in the public sector” in Financial accountability and management 31 / 3
Before proceeding, some terms from the wider literature should be defined, especially as they do not necessarily make sense in a public sector context. An attempt has been made below to translate them into the latter context.

Table 1: glossary of “business” terms and their “public” translation

<table>
<thead>
<tr>
<th>Concept</th>
<th>Meaning</th>
<th>Translation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>Linked activities oriented towards producing product or delivering services to customers (markets)</td>
<td>Linked activities oriented towards delivering policies in a country, region or other locality. The concept of “customer” is not readily translatable (see discussion in the chapter on differences between public and private sector).</td>
</tr>
<tr>
<td>(Strategic) Business Unit</td>
<td>An organizational unit for which it is meaningful to formulate a separate strategy, typically providing a single product/service or a number of closely related ones that serve a well-defined product/service-market combination. Has considerable autonomy and runs much of its own functions (HR, finance, etc.). This can therefore also refer to regionally defined units.</td>
<td>A ministry, an agency, ... can all be considered to be SBU’s to some extent.</td>
</tr>
<tr>
<td>Corporate centre, HQ</td>
<td>The term applies to rather large organisations that have multiple business units. Usually concentrates coordination of SBUs as well as some central functional support (e.g. HR)</td>
<td>The closest comparison would be something like the prime minister’s office, chancellery or any other government unit in charge of overall coordination and support. Usually referred to as “centre of government”.</td>
</tr>
<tr>
<td>CEO</td>
<td>Head of the corporation. Sometimes also refers to the head of the SBU (especially if there is no corporation).</td>
<td>The closest comparison would be the head (e.g. director-general) of the prime minister’s office, chancellery... However, it can also be seen as referring to heads of ministries, agencies.</td>
</tr>
<tr>
<td>Senior executives</td>
<td>The top team of the corporation with at its head the CEO. Typically consists of functional heads (operations, finance, marketing). But also may include SBU managers. If there is no corporation, then it refers to the top team of a business.</td>
<td>The team at the head of the chancellery,... But more widely also includes the heads of ministries, agencies, etc.</td>
</tr>
<tr>
<td>Middle management</td>
<td>Comprises managers who head strategic business units or specific departments (such as accounting, marketing, production) in these units or who serve as project managers in flat organizations. They are directly below the corporate level. If there is no corporate level, this is the level directly below the business unit manager, with at least one more level of managers below them.</td>
<td>Heads of ministries, agencies etc. (director-generals, general directors,...) and their functional manager (IT, finance, HR...).</td>
</tr>
<tr>
<td>-------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>

| The board         | Representatives of the owners, led by the chairman of the board | Political level (with cabinets) led by the prime minister |

While it is possible to relate the terms from the private sector to the public sector, clearly the substance is different. In the public sector, ministers (and their cabinets) typically get involved much closer with a specific ministry than members of a board, which tends to not discuss directly with SBU managers but only with the corporate level CEO. The corporate level in the public sector administration (head of the civil service, prime minister’s office, chancellery staff,...) therefore does not typically hold the same importance as it does in the private sector.

But also in the private sector the use of these terms is not always clear. As stated, if there is no corporate level, “senior executive team” will refer to the top team of a business unit, with the top manager there being CEO. Also, even if there is a corporate level, the business unit manager is sometimes seen as part of senior management, alongside the CEO and managers of functions at corporate level. Most publications do not define these terms clearly.

However, this does not seem to matter much as what seems to count most is who is at a higher level (holding power over resources, seeking information) and who at a lower level (seeking access to resources, holding information).
1. Defining strategy, strategic planning and strategic management

a. “Strategy”?

The business dictionary⁴ defines “strategy”, the presumed output of strategic planning, as:

1. A method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem.

2. The art and science of planning and marshalling resources for their most efficient and effective use. The term is derived from the Greek word for generalship or leading an army.”

Mulgan (2009, p.19⁵) likewise defines public strategy as “the systematic use of public resources and power, by public agencies, to achieve public goals”.

However, these definitions remain very broad and could apply to almost everything, if at least done systematically, that takes place in an organization. Desmidt and Heene (2005, p. 131) attempt to provide more detail concerning the “content” of a strategy via their concept of the strategic logic as depicted in Figure 1.

![Figure 1: strategic logic](source: Desmidt and Heene (2005))

The strategic logic starts from a “business” concept (what value to provide for whom in what way) and then devises an organisational concept that makes explicit what resources will be brought to bear via which organizational design (who will do, know and decide what), with what control.

---

⁴ http://www.businessdictionary.com
⁵ The art of public strategy, Oxford University Press, 2nd edition.
mechanisms to realise the business concept. Together, the organizational and business concepts shape the core processes of the organization namely innovation, operations, stakeholder value distribution and transformation. This latter process is a kind of meta-process as it is there to secure occasional deep changes in the other processes. Deep changes imply changes in the strategic logic. The need for deep changes is derived from the “turbulence” in the environment of public sector organisations, as pointed out by Poister and Streib (1999) and Doz and Kosonen (2014).

However, while the figure above may clarify the elements a strategy can pertain to, it does not really explain any better what a strategy is. This is the focus of UCLA management professor Rumelt (2011) who first coined the term “bad” strategy. He states that strategy is neither about ambition, charismatic leadership, vision or planning. It is about coherent action backed by an argument. He defines “good” strategy as concentrating resources and action on a few strategic insights and critical issues in a situation and the associated pivot points that can multiply effectiveness of effort. A good strategy acknowledges the challenges faced and an approach to overcoming them. “Bad” strategy, on the other hand, ignores the power of choice and focus and tries to accommodate a multitude of conflicting interests and demands. It covers up its failure to guide by embracing the language of broad goals, ambition, vision and values. He cites as an example the US education system which is rife with targets and standards but poor at comprehending the sources of underperformance.

His criticism of bad strategy boil down to four points:

- **Failure to define the specific challenges**: this is to be distinguished from generic statements concerning poor performance on topline indicators (e.g. decreasing market share). It takes real insight into causes of poor performance on these indicators. If obstacles to be removed are not identified, you only have a stretch goal, a budget or a wishlist of things to do;

- **Mistaking goals for strategy**: just setting “aggressive” goals does not make for a strategy. There needs to be an understanding of the leverage points that will help address the specific challenges. Good strategists need not just push (like generals did in WW 1) but create the conditions that will make the push effective;

- **Bad strategic objectives** these are:
  - either a scrambled mess of things to accomplish, usually grown out of planning meetings in which a wide variety of stakeholders make suggestions. Rather than focus everything is swept together in the plan and “long term” is added implying that none of it needs to be done today;
  - or “blue sky”, meaning that they are a simple restatement of the challenge or desired state of affairs, without having a clue how to get there. If the strategic objectives are as hard to meet as the original challenge, there is little value to this.

- **Fluff**: restatements of the obvious with buzzwords added (e.g. our strategy is to ensure world class processing of tax declarations).

The reasons for so much “bad” strategy are two-fold:

- Inability to choose;

---

6 “Strategic Management in the public sector” in Public productivity and management review, vol. 22 nr 3”
7 Governments for the Future: Building the Strategic and Agile State: SITRA
8 “The perils of bad strategy” in McKinsey Quartely, June
• Fascination with positive thinking associated with charismatic, transformational leadership that produces a vision, inspires people to sacrifice for the good of the organization (change) and then empowers them to do it. This produced, by the early 2000’s, a template style system of strategic planning consisting in the vision (popular is to be the best or leading), mission (high sounding politically correct with words like innovation, human progress as well as sustainability), values (ensuring these are non-controversial like integrity, respect, excellence), strategies (usually just aspirations and goals) sequence.

“Good” strategy on the other hand requires three things:

• A sound diagnosis: explaining the nature of the challenge, simplifying the overwhelming complexity of it, by identifying certain aspects as being the critical ones
• A guiding policy: an overall approach to coping with the obstacles identified in the diagnosis;
• Coherent actions: steps that are coordinated to ensure the guiding policy is accomplished.

Rumelt (2011) clearly remains closer to the military origins of the concept of strategy. This is not incompatible with the idea of strategic logic as described by Desmid. and Heene (2005). Rather, the strategic logic can be seen as one of many analytical support tools for pinpointing challenges as well as leverage points. There can be challenges pertaining to any element or to the logic connecting the elements. Indeed, a major challenge can be a lack of logic leading to incoherent actions and waste.

There are also authors like Eisenhardt (2002) who claim the nature and dimensions of strategy have fundamentally changed. Increasing globalization, which refers to a much more densely connected world (culturally, environmentally, technically, financially) is a key factor. The dense connections have amplified the effect of a second factor, which is increased instability. The latter is due to increased fragmentation (a loose “structure” evident e.g. in geopolitics where the post WW2 era was shaped predominantly by the US and Soviet Union) where no one is “in charge” and unlikely coalitions constitute (and decompose) themselves to (re)act to protect their interests, as well as the increased availability of information (e.g. via the internet). Even small events can trigger big reactions making prediction even harder than it ever was. The play is now high velocity, with strikingly non-linear instability, unpredictability and ambiguity. The abbreviation VUCA (volatile, uncertain, complex, ambiguous), originally denoting the end of the ordering function provided by the Cold War, is becoming a mainstream concept in the public sector discourse (e.g. at the level of the OECD, 2017).

This new context poses some challenges to the traditional “military” based concept of strategy. It used to be about locating defensible positions (on a map in the strategy room) and then fortifying them. This also implied wars were, at least in part, fought in the storeroom by amassing stockpiles of specific weapons and then deploying them wisely. This is represented by strategies of positioning (planning a position and then defending it with intertwined activity systems) and the resource based view (leveraging core competencies in many markets) of strategy. However, in the new VUCA world, strategy resembles more guerilla warfare: moving quickly, taking advantage of the opportunity and rapidly cutting losses. This is not random but informed by a clear purpose. This idea used to make
sense only for small underdogs that lacked resource and position, but now it also starts to make sense for large organisations.

Also Hagel (2015\textsuperscript{11}) makes a similar distinction between “strategies of terrain” and “strategies of trajectory”. The former concern scanning the terrain and finding a favourable position to occupy. But as the terrain becomes more unstable, strategists shifted from a view of the external terrain to the internal one, focusing “core competencies”. The danger is that we can be the best at something that is rapidly becoming obsolete. In parallel, others focused on strategy as “hustle”: sensing and quickly responding to near term events. The only terrain that mattered there was the immediately surrounding one within a timeframe of today, not tomorrow. However, according to Hagel (2015) this approach also poses risks, specifically, of spreading resources too thinly across too many fronts, racing to respond, with difficulty to ascertain what really matters rather than represent a one-off distraction. This approach also has a hard time reacting to fundamental disruptions that require more than a short term response. Hence, he proposes what he calls “strategies of trajectory”. Rather than looking from the present to the future, this entails looking from the future to the present. In this view, we create a clear view of a trajectory to this future and how this will reshape the current terrain. It is dangerous to play a wait and see game in the hope that things will become clear over time as by the time they do, it may be too late to act. We do not need a detailed blueprint of the future terrain, only enough detail for a sense of direction and to help make difficult near term choices. In fact, without a detailed blueprint, we have a greater incentive to keep identifying and understanding the forces that shape the terrain, rather than get lost in details. The broad direction of these long term forces is easier to predict than the shape of the terrain.

Stopford (2001)\textsuperscript{12} espouses very similar views to Eisenhardt (2002) and Hagel (2015). He cites three aspects of the new business environment that are driving changes in what strategy is all about:

- **Rapid decline in transaction costs** that are making the traditional advantages of scale disappear and allow smaller, more dynamic organisations to be successful. Supporting quick action and reaction is therefore the new challenge for strategists;
- **The internet has broadened the supply of information and encourages activism** (e.g. people overcoming “it can’t work” attitudes by pointing to experiences from all over the globe). This means restricting strategic dialogue to the top of an organization ignores people that carry valuable data, ideas and ambitions and that are then likely to leave (or worse, typically in the public sector, stay and grow cynical);
- **Successful strategizing is no longer predominantly concerned with resources** (who can muster the most) **but with having alternative ideas** (business model innovation). Before, innovative strategies used to involve in depth analysis of the environment and, based on that, forecasting of future conditions and in response, planning of largely one-off efforts that relied on controlling physical assets. That worked well in relatively stable environments but now, there simply is not enough time to sit down and logically derive a strategy from such analysis. Even assets are hard to pin down (as evidence by the difference between book and market value for the most innovative companies). Today, **managers must learn NOT to see**


\textsuperscript{12} “Should strategy makers become dream weavers” in Harvard Business Review, January
the world through the lens of the past, making all evidence fit that view, reinforcing old models.

b. “Strategic planning and management”?

Poister and Streib (1999) state that “Strategic planning is a principal element but not the essence of strategic management, which also involves resource management, implementation and control and evaluation” (p. 310). Also, “Strategic management is not a linear process of planning, implementation and evaluation. Rather, strategic perspective on an ongoing basis to ensure that strategic plans are kept current and that they are effectively driving other management processes” (p. 311). Similarly, Bryson (2011, p. 261) makes the following distinctions:

- **Strategic planning:** “A deliberative, disciplined effort to produce fundamental decisions and actions that shape and guide what an organisation (or other entity) is, what it does, and why it does it.”
- **Strategic management:** “The integration of strategic planning and implementation... in an ongoing way to enhance the fulfillment of mission, meeting of mandates, and sustained creation of... value”.

Poister (2010) likewise defines strategic planning as “a big picture approach that blends futuristic thinking, objective analysis and subjective evaluation of values, goals, and priorities, to chart a future direction and courses of action to ensure an organisation’s vitality, effectiveness and ability to add value” (p. 247). For him, strategic management is “concerned with ensuring that strategy is implemented effectively and encouraging strategic learning, thinking and acting on an ongoing basis....implementation aspect involves working all the “management levers” in concerted effort....largely matter of utilizing and coordinating all of the resources and venues at top management’s disposal,...in the interest of advancing the strategic agenda.” (p.249). The aforementioned levers include operational and business planning, budgets, analytical and problem-solving capabilities, workforce development and training, internal and external communications, programme delivery mechanisms, legislative agenda’s, leadership skills and the ability to influence other actors in networks.

These concepts of can be seen as part of the transformation process inside the strategic logic, as proposed above by Desmidt and Heene (2005). Nutt and Backoff (1993), in their seminal work on strategy in the public sector, indeed state that “…sweeping change calls for a transformation... The transformed organisation develops more flexibility and adaptability ...increases its repertoire of responses,...” (p. 304). According to Poister and Streib (1999, p.310), “Strategic planning has gained widespread currency in government. Agency managers now view it as a valuable tool for charting future directions in changing and sometimes turbulent environments”. Doz and Kosonen (2014) also

---

14 Transforming public organisations with strategic management and strategic leadership” in Journal of Management, vol. 19, nr 2
point out that we are living in a world that “has become more interdependent, volatile, and complex”. Hence, the relevance of strategic planning should only have increased.

c. The cutting edge?

i. A transformation process

However, Poister (2010) states that criticism on these concepts abounds. The General Accounting Office in its evaluation of the GPRA found in 2004-5 that federal managers “had difficulty establishing outcome oriented goals, addressing issues that cut across federal agencies, adequately soliciting or incorporating consultation from external stakeholders,…relating annual goals to long-term goals, and identifying...resources needed...” (p. 247).

Mintzberg (1994), in a seminal article, also stated that the expectation that staff specialists (the “thinkers”) supported by planning systems would produce the best strategies as well as step by step instructions for carrying them out so that business unit managers (the “doers”) would not mess up execution, did not hold up in practice. The reason is “strategic planning is not strategic thinking. Indeed, strategic planning often spoils strategic thinking...” (p.107)

The strategy making process should be about capturing what managers learn from all sources (both the soft insights from experience as well as the hard from market research) and then synthesize this learning into an integrated perspective, a not too precisely articulated “vision” of the direction the business should pursue. Strategic thinking is indeed about synthesis, not analysis (which is an input only). It therefore involves intuition and creativity. Typically this is not achieved via tightly scheduled and formalized process. Rather, strategies “must be free to appear at any time and any place in the organization, typically through messy processes of informal learning that must necessarily be carried out by people at various levels who are deeply involved with the specific issues at hand.” (Mintzberg, 1994, p. 108)

Strategic planning (due to its analytical nature) on the other hand really has been about “programming”, the further elaboration of strategies or visions that already existed. Mintzberg (1994) provides a useful list of common pitfalls and fallacies associated with such strategic planning:

- it represents a **calculating rather than a committing style of management**: the first fix a destination and then coldly calculate the path, while the latter lead in such a way that everyone on the journey helps shape its course. In the first case, planning has often been used as a blatant exercise to control business managers;
- it **assumes a predictable world** that holds still while the plan is developed and stays on the predicted course while it is implemented. This is evidenced by the typical calendar fixed moments for decision-making at various levels of the organisation;
- it **assumes “thinkers” and strategy formulation should be separate from “doers”** and implementation, because it is better to be detached and consider the facts objectively. The

---

25 “The fall and rise of strategic planning” in Harvard Business Review January-February
trick is how to get the information up to the higher level so it is informed about the details down below without having to immerse themselves in them. The solution was deemed to be “hard data”, which are quantitative aggregates of the details. But this kind of aggregation is a poor substitute for the synthesis created by a strategic thinker. It lacks the richness of qualitative information, tends to be overly aggregated, missing nuances and it takes time to create, making it often too late. “Vision is unavailable to those who cannot see with their own eyes” (p. 111). Strategists do not abstract themselves from the daily details but immerse themselves while extracting, often via a learning process (with fits and starts, with discoveries based on serendipitous events and unexpected patterns that get recognised), the strategic messages in these details;

- it assumes formalized systems produce better results: these systems can process more hard information, but they cannot internalize, comprehend and synthesise it. Rather, strategising as a learning process entails not only thinking in order to act, but also acting in order to reflect, with experiments eventually turning into viable patterns that become strategies.

Ohmae (1982)\textsuperscript{16}, when describing the Japanese idea of “strategy” already made clear that there, the messages of Mintzberg (1994) would hardly be revolutionary. “Japanese companies...have no big planning staff, no elaborate gold plated planning processes...They may not have a strategic planning staff but they have a strategist of great natural talent: usually the founder of chief executive. Often - especially in Japan where there is no business school...have had little or no formal business education.” (p.2) These leaders have an idiosyncratic way of thinking in which company, customer and competition merge in a dynamic interaction out of which eventually objectives and plans will crystallise. But the key to success is insight, which is creative, intuitive and often disruptive of the status quo. This insight and the associated drive to achieve, does not just arise from analysis but from a state of mind. \textit{Analysis is then only used to stimulate creative processes, to test ideas that emerge, to work out their strategic implications, or to ensure successful execution of wild ideas that otherwise would never get off the ground.} “Great strategies, like great works of art or great scientific discoveries call for technical mastery in the working out, but originate in insights that are beyond the reach of conscious analysis” (p.4) Ohmae (1982) states that \textit{regrettably, in the West, giant institutions have put in place systems and processes that are oriented only to incremental improvement, rather than innovation.}

However, this does not mean for Mintzberg (2014) that planners cannot make contributions:

- by acting as \textit{strategy finders}: they can snoop around in places managers might not normally go (finding patterns amid the noise of failed experiments, seemingly random activities, messy learning) and bring new ways of doing or perceiving to the attention of managers.
- as \textit{“soft” analysts}, supplying (quick and dirty) analysis or hard data as long as this serves to broaden the consideration of issues by managers by helping them pose the right questions, rather than aiming to discover the one right answer and closing down consideration prematurely by snap decision-making. \textit{Scenario planning} to change manager’s mental models is referred to as a valuable practice in this respect. It will be covered in a separate chapter;

\textsuperscript{16} The Mind of the strategist. Penguin.
• by **acting as catalyst** who aid and encourage managers to think strategically. They may have to use provocation or shock tactics like raising difficult questions and challenging conventional wisdom;

• finally, more **traditionally, as programmers** they
  
o codify: render strategies operational so their anticipated consequences can be worked out in detail;
  
o elaborate: breaking the codified strategies down into sub-strategies, programmes and action plans;
  
o convert: consider the effects of changes on the organisation’s operations, crossing the divide from the non-routine of strategizing to the routine of budgets, goals, policies and operating procedures, all of which may have to be reworked.

However, Mintzberg (1994) also warns that “programming” is not always a good thing to do. **Only when one is sure of relative stability of the environment and in need of tight coordination of a myriad of intricate operations as well as the tangible and moral support of outsiders, does programming make sense.** Otherwise, strategies are best left flexible, as broad visions, enabling adaptation. Mintzberg (1994) is also **clear that strategizing needs to function beyond the analytical boxes, encouraging the informal learning that produces new perspectives. Planning will always fail to transcend the existing boxes and hence cannot generate anything than strategies that are extrapolated from the past or copied from others.**

Birshan, Gibbs and Strovink (2014)\(^\text{17}\) elaborate further on the various roles involved in strategising and come, 20 years on from Mintzberg (1994), to very similar conclusions about the needed roles. They also researched the prevalence of these roles using a survey of 350 chief strategy officers in 25 industries across the world:

• **Architect:** the most traditional role, involving using facts based analysis to spot industry trends and analyse own sources of advantage. Focused on driving business performance via organic growth and/or mergers, joint ventures, acquisitions, divestiture,…  40 % of the respondents fall into this category;

• **Mobiliser:** focus on ensuring strategy meetings are truly strategic and that those involved are skilled. They ask the right questions, scrutinize assumptions, ensure that organisations are learning by being porous to the outside. They also make sure strategy is synthesized in a concise and easy to understand way that organisations can seamlessly translate into action. It is a critical part of strategizing in fast moving markets and talent based business models where strategy is set in micro-decisions made by people throughout the organization. 20% of the respondents fall into this category;

• **Visionary:** scanning for trends and shocks that may create opportunities or risks (e.g. using big data) and running innovation processes (e.g. workshops to develop new products/services and business models) to create unique perspectives concerning sources of value and how to address them. This applies to both fast-moving and slower industries. 14% of the respondents fall into this category;

• **Surveyor:** like visionaries, they worry about trends but they focus on longer range topics that have the greatest potential to change the way an industry operates and therefore require a

\(^{17}\) "Rethinking the role of the strategist" in McKinsey Quarterly, November
dedicated response today. They are concerned with “long term health” and keeping “the company around for 100 years.” Another 14 of the respondents % fit this category.

- **Fund manager**: these focus on performance by encouraging to move in and out of businesses and to nurture and prune existing portfolios. They are concerned with balancing risk and return at the level of the whole portfolio. 12% of the respondents fit this category. We find these mostly in businesses with various brands, large industrial conglomerates, capital intensive, project based sectors (e.g. IT), as well as banking and insurance.

Apart from fund manager, all of these roles overlap considerably with Mintzberg (1994):

- **Architect**: supported by soft analysists and programmers;
- **Mobiliser**: supported by soft analysists and catalysts;
- **Visionary**: supported by soft analysists and strategy finders;
- **Surveyor**: supported by soft analysists (e.g. via scenario planning).

However, it is key to understand that to Mintzberg (1994), these roles are only about supporting managers in strategising, not about putting the responsibility for strategising in a separate staff unit, while Birshan, Gibbs and Strovink (2014) appear to advocate consideration of giving the chief strategist more power. It is also clear that the role of architect represents the largest share of strategic support. However, this holds the least potential for innovation.

Hamel (1996)\(^\text{18}\), in another seminal contribution, similar to Mintzberg (1994) and Ohmae (1982), states that strategy is not about “squeezing another penny out of costs,…, responding to customer inquiries a little bit faster, ratcheting quality up one more notch,…” (p.69). For him, strategy is revolution and everything else tactics. He provides ten key principles:

1. **Strategic planning isn’t strategic**: strategizing is about discovery and dreaming while planning is a **calendar driven, technocratic programming ritual, working from today forward rather than future back**, implicitly assuming that the future will be more or less like the present. It is also elitist, harnessing only a fraction of an organisation’s creative potential;

2. **Strategy making must be subversive**: it takes the most fundamental beliefs that are widely held and then relaxes them to see what opportunities emerge;

3. **The bottleneck is at the top of the bottle**: strategic orthodoxy finds its most powerful defenders in senior management. This is because the organizational pyramid is one of experience. But this is useful only to the extent that the future is like the past;

4. **Revolutionaries exist in any organization** but their voices are muffled by layers of cautious bureaucrats, powerless and isolated from others who share their passions. The challenge is not to find leaders that will transform an organisation but **leaders that will help the pro-change constituency find its voice**;

5. **Change is not the problem**, engagement is: a ruling assumption is that people (especially middle managers) resist change and that, hence, a heroic leader is needed to force everyone into the future. But all too often this “change” is about something nasty, like restructuring, to be imposed on unsuspecting and unprepared employees. This is not about **opening up new opportunities** but rather about paying for the past mistakes of corporate leaders. The

\(^{18}\) “Strategy as revolution” in Harvard Business Review, Juli-August
objective is not to get people to support change but to give them responsibility to engender change by engaging the revolutionaries in a dialogue about the future;

6. Strategy making must be democratic: the top 40 or 50 executives have little to learn from each other as they have been talking to each other for years and have well-rehearsed positions. The capacity to think creatively is distributed widely and as it is hard to predict where a revolutionary idea will form, the net must be cast wide. At the same time, executives must be careful not to intimidate others as then, they will learn little. This can be done by interacting on neutral ground, making sure executives are outnumbered, the setting is informal (e.g. no tables and “frontstage”) and executives withhold comments. Three constituencies are systematically underrepresented and should receive due attention:
   - the young / youthful;
   - the people at the periphery, who are forced to be more creative as they have less power over resources and are exposed to unorthodox ideas and developments;
   - newcomers at all levels who have not yet been co-opted by dogma;

7. Anyone can be a strategy activist: when is the last time a monarch led an uprising? The idea that change will come from the top is unlikely. To turn frontline staff and middle managers from victims into activists, they must be recognized as reformers (not anarchists who tear down), intending to protect the organization from mediocrity, self-interest and mindless veneration of the past. But most organisations make clear that it is safer to be silent. While dissenters are not shot these days, they are put on a side track which amounts to the same;

8. Perspective is worth 50 IQ points: looking through new lenses does not make anyone smarter but does bring new insights. To be able to take a different perspective, one must identify the current one (the unshakeable beliefs), next look for discontinuities (regarding e.g. technology, working habits, lifestyle, geopolitics,...) as well as deeply understand core competencies.

9. Top-down and bottom-up are not alternatives: top down strategies tend to be dirigiste rather than visionary while bottom-up skunks works, new ventures and musings of research fellows tend not to trigger revolutions any more than annual planning rituals. This is because while revolution does not need to start from the top, it must be understood and endorsed by them. In the traditional model, the thinkers are assumed to be at the top and the doers down below. But in reality, the thinkers often lie deep in the organization, while the top simply controls the means to doing. Hence, senior executives must sponsor a process of deep thinking across the organization, while ensuring they are regularly kept up to speed with revolutionary ideas (e.g. spending one week per month engaging on these). The role of revolutionaries is not to convince the senior execs. Rather, the latter need to stay close enough to the learning process of the former, to ensure that they share the insights and understand emerging convictions. Ultimately, diversity of perspective must go together with unity of purpose. Unity without diversity leads to dogma while diversity without unity results in competing agendas and fragmentation of resources. This certainly rules out asking a small elite group from the organisation or a team of “substitute brains” from a consulting company to go away and devise the strategy, as this will neither involve a substantial cross-section of the organization nor of top management and hence be the worst of all worlds;

10. Opening up a dialogue but then ignoring the outcome poisons the well.
The above views are also broadly supported by research by McKinsey’s Beinhocker and Kaplan (2002) who, based on research relating to 30 organisations and validated with another 50, state that in many cases the annual strategy review amounts to little more than a stage on which “business unit leaders present warmed-over updates of last year’s presentations, take few risks in broaching new ideas, and strive above all to avoid embarrassment.” (p. 49)

To these authors, building “prepared minds” and “increasing the innovativeness of an organization’s strategies”, by challenging assumptions and opening up to new thinking, are the two goals that should be met by a formal process if it is to add value. Preparing minds here refers to the need to make sure that decision-makers have a solid understanding of the business, its strategy and the assumptions behind it as well as strategic uncertainties ahead. In this way, they can respond swiftly to challenges and opportunities as they occur in real time. It needs to be complemented by encouraging creative minds to think about vision and direction. For these authors, this involves:

- **Top down driving of themes that cut across many parts of the organization.** In some cases, this requires involving a lot of people, but usually not full time (via strategic conversations, conferences, special meetings), in others a few people are needed to address an issue in depth (via task forces, SWAT teams, hallway meetings). This fits well with the shift Mankins and Steele (2006) advocate from “review and approve” to “debate” and “decide”. This will be further elaborated in the next two chapters.

- **Bottom up strategy by experiment:** pursuing various (even competing) options in parallel with the existing business, built around core competences, to test specific hypotheses about where future opportunities may be found. This enables constant adaptation. This will be further elaborated in the chapter on dealing with a VUCA world.

Hamel (1998) noted almost 20 years ago that while scholars have made great advances in understanding more about the content and context of strategy but much less concerning the task of strategy making. “Managers…don’t know how to foster the development of innovative wealth-creating strategies… annual strategic planning process has changed hardly at all during the past decade or two”.

However, 20 years later Birshan, Gibbs and Strovink (2014) still need to state that “weaknesses of traditional strategic planning -characterised by a lockstep march toward a series of deliverables and review meetings according to a rigid annual calendar… thinking differently about what it means to develop a great strategy: less time running the planning process and more time engaging broader groups inside and outside the company, going beyond templates and calendars, and mirroring the dynamism of the external environment.”

We know turn to three of the defining elements of strategic management, as highlighted above.

### ii. An issue driven process

---

20 “Stop making plans, start making decisions”, Harvard Business Review, January
Transformation should of course not be pursued for its own sake. There must be a compelling reason that triggers the need to transform, namely the continuous flow of issues / challenges that arise.

Bryson (2011, p. 24) states that “…the heart of the strategic planning process…is the identification and resolution of strategic— that is very important and consequential—issues.” **Issues are seen as critical challenges affecting the organisation’s mandates, mission, product/service level and mix, clients, users, payers, costs, financing, organisation and management.** Reasonable agreement on how to resolve issues can then be recast into goals, policies, programmes and actions. For Bryson (2011), issues should be **phrased as questions that can have more than one answer** e.g. “How will we deal with the pressure an ageing population is putting on the pension system?”.

Bryson (2011) attempts to provide a comprehensive concept of strategic management as depicted below. The full details of the system are provided in annex. Here, we focus on the core concept of “issues”.

Figure 2, with issues at the center. The full details of the system are provided in annex. Here, we focus on the core concept of “issues”.

**Figure 2: Bryson’s framework of strategic management**

According to Bryson (2011) issues arise when...
1) events beyond the control of an organisation make or will make it hard to impossible to achieve basic objectives, which is usually a threat;
2) technology, cost, financing (incl. competition with others for the same pot of money), staffing, management or political choices for achieving basic objectives change, which can be a threat or opportunity;
3) changes in mission, mandates or internal/external factors (incl. user preference) suggest opportunities to:
   • make significant improvements in quantity or quality of services;
   • achieve significant cost of service reductions
   • introduce new services;
   • combine, reduce or eliminate services (or surrender to the private / third sector);
   • create more public value in general.

The idea is that regular issue identification (as challenges the organisation can do something about) allows to “get in front of the issue” and “… thus typically –or at least ideally- are not current problems or crises, although… obviously decision makers should think strategically about how to address current problems and crises” (Bryson, 2011, p. 193).

The implication is that something like the refugee crisis that has been affecting the European Union for quite some time is not something that is to be resolved by strategic planning but that sound strategic planning should have enabled governments in the EU to avoid this crisis in the first place by recognizing issues at a time when it was still possible to “get in front” of the issue.

Bryson (2011, p. 58 and 188) also distinguishes strategic from operational issues:

- **Strategic issues** (labelled adaptive, complex, developmental) alter the organisation and its core business and require:
  o Knowledge exploration;
  o New concepts;
  o Changes in basic stakeholders (e.g. clients) and/or relations;
  o Radical new technology;
- **Operational issues** (technical, complicated) rather require:
  o Knowledge exploitation;
  o Refining but not questioning current strategy;
  o Process management and improvement;
  o Use of existing technologies;
  o Maintaining relations with existing stakeholders.

Responses are different, depending on the type of issues:

- **Strategic issues require system level responses** (work on mission, vision, goals, basic rules – in short, the institutional framework), new capacities, services/products, channels, sources of revenue and a deeper dialogue by senior staff, governing board, key stakeholders at system level (beyond the organisation);
- **Operational issues typically are dealt with within the existing strategy**, with improvement in ongoing operations, action planning, by line managers, operations groups and teams, existing co-producers and/or users.
It should be clear that “how” issues are framed can make quite a bit of difference for ensuing strategies. Indeed, according to Bryson (2011, p. 185) “The way these questions are framed can have a profound effect on the creation of ideas for strategic action...”. For example, a trend like “rising levels of waste”, such as affected Flanders in the late 80ies\(^{22}\), could be construed as an issue in several ways:

- **Operationally**: “How will our waste management agency address rising levels of waste” is likely to create on answer such as “by trying harder what we do already e.g. opening more landfills, efficient incinerating plants...”
- **Strategically**:
  - **in terms of innovation**: “What new ways can we devise in the waste management sector to deal with the pollution derived from incineration and landfiling” is more likely to prompt a response such as “by investing in developing new services/solutions such as recycling, capitalising on new technological developments”;
  - **in terms of a transition or “systems” innovation**: “how can we, across society, in the longer term, address rising levels of waste in a sustainable way?” will rather prompt a response to “embark on a process of systemic innovation that points to using materials in a more deliberate way rather than deal just with waste generated by the excessive use of materials”.

The difference between innovation and transitions or “systems” innovation requires some explanation. OECD (2015\(^{23}\)) defines system innovation as “a horizontal policy approach to tackle problems that are systemic in nature; it involves actors outside government and is longer term in its planning.” (p. 6). “Transition theory” is a field of academic research that focuses on understanding system innovation. Geels, F.W. (2004\(^{24}\)) which involves changes in socio-technical systems, rules and institutions (also referred to a semi-coherent sets of rules or “regimes”) as well as the actors that are involved in delivering a societal function (e.g. transportation, energy,...) as depicted in Figure 3. These changes are very difficult as the composing elements of the way a societal function is delivered today mutually reinforce each other.

---

\(^{22}\) For a historical overview of waste issues in Flanders, see Torsten Feys, 30 jaar OVAM, 2012.

\(^{23}\) System innovation: synthesis report

\(^{24}\) “From sectoral system of innovation to sociotechnical systems” in Research policy 33
• Regimes (rules, institutions):
  o Regulative: via standards, legally binding contracts, laws,... etc.
  o Normative: via mutual role perceptions and expectations of what is “proper”
  o Cognitive: as most learning builds on existing knowledge and tends to refine it (rather than challenge it) and as shared belief systems that reflect the past, orient perceptions of the future and steer the present (e.g. expecting that problems will be resolved within the existing regime blinds actors to new opportunities),...
  o Alignment between the rules creates its own stability (it is hard to change one without the others);

• Actors:
  o via being embedded in networks with other actors which represent some form of social capital (e.g. knowing whom to call upon – trust);
  o via vested interests and commitments;
  o this makes them “blind” for alternatives

• ST systems:
  o via hardness of their artefacts and material networks;
  o via complementarities between components and sub-systems;
  o via being embedded in society (e.g. people lifestyles are linked to it) and network externalities.

“Regular” innovation can now be defined by differentiating it from systems innovation: regular innovation, while putting forward new solutions that may require new resources and capabilities that address newly conceptualized needs of certain actors, does not conflict fundamentally with the existing configuration of regimes, actors and ST system but only evolves it further. Transition management puts forward that a combination of elements is required to change existing configurations substantially:

• innovation niches where new approaches are tried out and further developed via sequences of experiments that are connected with each other within social networks that are themselves constituted by participating in these niches;
• pressures on the existing regime, channeled by societal pressure groups and social movements as well as outside experts, that create occasional windows of opportunity.

Kingdon’s (201125) seminal model of agenda setting, as elaborated by Paredis, E. (201326) in a study of policy change regarding waste management in Flanders, is depicted in the figure below. This model puts forward that a crucial role is to be played by policy entrepreneurs who couple problem, policy and political streams to put an issue on the agenda. They are skilled at creating and using windows of opportunity.

26 A winding road: transition management, policy change and the search for sustainable development.
Issues are clearly not simply facts to be noted by all those involved. Bryson (2011, p. 56) puts forward that **strategic issues involve conflicts** over ends, means, timing, location, political advantage, reasons for change, philosophy and values (ideology) and that “in order for issues to be raised on resolved effectively, the organization must be prepared to deal with the almost inevitable conflicts that will occur”. **Efforts to resolve these issues emerge over time as policies and programmes that are acceptable** to involved parties. These are captured, framed, interpreted,... by more general policies over time. These do not represent consensus but rather a reasonable level of agreement.

### iii. A continuous process

Typically, once a strategy has been formulated, taking into account issues as described, and is starting to get implemented, **review processes are put in place to follow-up on the intended transformation and adjust if needed**. Beinhocker and Kaplan (2002), however propose that well-executed strategy reviews, display the following characteristics:

- Take shape as strategic conversations in relatively small groups;
- Take enough time;
- Are organized at the location of the reviewed unit itself;
- Separate from meetings on budgets (which can be an input for the strategy discussion, which itself is then an input for the budget);
- Refrain from outsourcing strategy altogether to staff or consultants but require key executives to involve themselves personally;
- Refrain from asking too much uniformity concerning the review across units. Each is different and this is also an opportunity to assess the quality of the unit’s management team which could be obscured when it is just a matter of templates to fill in;
• Are rehearsed by the unit to ensure they are ready and send documents at least a week before the meeting to enable proper focus at the meeting;
• Are not an attempt to pull skeletons out of the closets, but should focus on common challenges, being on the same team;
• Show disciplined follow-up.

Mankins and Steele (2006) also recommend an issue driven approach to strategic planning, similar to Bryson (2011). They also reflect on the way such an issue driven approach is maintained over time. They point out that introducing the kind of best practices for strategic reviews, as proposed by Beinhocker and Kaplan (2002), such as focusing on a few “high impact” exhibits describing a unit’s strategy, ensuring that all presentations are distributed well in advance so executives can reflect on them, ensuring that there is ample time for discussion, holding the review at the business unit location,... do NOT lead to more actual strategic decision-making. Hence it does not really influence strategy. They state that “the few decisions companies do reach are made in spite of the strategic planning process... Strategic planning becomes a mere codification of judgements top management has already made.” Beinhocker and Kaplan (2002) also conceded that, even when done well, traditional review processes tend to produce “in the box” strategies. The reason is twofold.

First, it is typically an annual process and a precursor to the yearly budgeting and capital approval processes. Indeed, this often promoted as best. But a once a year planning schedule means that, on average, less than nine weeks per year are devoted to strategy. But many issues simply cannot be adequately addressed in such a short time window. Executives therefore have no choice but to work on the issues and make decisions through other processes than strategic planning, which therefore ends up marginalized and separate from strategic decision-making. Also, the linear sequencing of strategic planning (analysis of market related information, then threats and opportunities, then defining a multi-year plan) does not reflect how issues are really addressed, namely via continuous decision-making, driven by unfolding events and information regarding. This regrettably then happens in ad hoc ways, without any rigor or discipline.

Second, it is most often focused on individual business units or other groupings. But executives make decisions based on issues, not groups. The unit focus even creates distance between reviewers and reviewees. The latter hope to escape with few unanswered questions and an approved plan. Accordingly, they control the flow of information upward: opportunities are highlighted, threats downplayed or omitted. Even if there would be no subterfuge, senior executives would not have the information base to be helpful. They really have only two options: reject the plan or approve the plan, imposing stretch targets to secure at least the promise of increased performance. In both cases, the review does not entail any decisions on actual issues.

For Mankins and Steele (2006), the focus rather has to be on reaching decisions through continuous identification and systematic resolution of strategic issues. This requires a new process the output of which is not a plan at all but a set of concrete decisions that management can codify into business plans through the existing planning process which remains in place. Identifying and making decisions is distinct from creating, monitoring and updating a strategic plan.

This means executive committee dialogues, with relevant business unit managers included, can take place every week if needed, focused on progress in resolving long term issues and making decisions. Consequences of these decisions then still need to be integrated into existing plans (e.g.
financial forecasts). As issues frequently span multiple business units, task forces are established to prepare the information needed to generate and evaluate ideas to address the issues. Typically, a first dialogue will focus on reaching agreement on the facts surrounding an issue and a set of options. The second focuses on selecting the option(s). Critical issues, typically situated within corporation wide themes, can emerge and be inserted into a 6 month rolling corporate agenda at any time. In this way, anyone can see what management is working on and when it will be addressed. Similar agenda’s are used a business unit and functional level.

Beer and Eisenstat (2000) and (2004) within the same context of strategy implementation and learning, have elaborated on how to get the most out of such task forces and executive committees as proposed by Mankins and Steel (2006). For them, the collective inability to talk openly about problems an organization faces is common. Most initiatives to address this (e.g. employee surveys, 360 degree feed-back, interviews by external consultants, even honest one to one conversations between a key manager and the CEO) fail to uncover the truth, hence leading only to artificial change. This failure is due to these initiatives not being able to convince employees that management wants to know the truth and is ready to act. Quite the reverse, they incite cynicism, the enemy of commitment.

Beer and Eisenstat (2000) refer to the six killers of strategy implementation that need to be tackled. In their interaction, these barriers create serious problems. Poor vertical communication is at the core as it prevents discussion of the rest as well. Hence, the “silent” killers. This is depicted in the figure below.

**Figure 5: killers of strategy implementation**

![Diagram of the six killers of strategy implementation](source)

Issues with quality of direction arise mainly from three of the “killers”:

---

27 "The silent killers of strategy implementation and learning" in Sloan Management Review, vol. 41:4
28 "How to have a honest conversation about your business strategy" in Harvard Business Review, February
• **Top-down or, the exact opposite, a laissez-faire style of management**: in the first instance this is a tendency to bypass members of the team, going directly to lower levels (to get info, give orders), while the second is reflected in a tendency to avoid discussion (e.g. by focusing meetings on admin matters and for the rest managing one on one) that could cause conflict or not holding subordinates accountable for failing to make coordinated decisions;

• **Ineffective senior management team** where individuals do not subordinate their interests to the needs of the overall business;

While the **absence of clear priorities** denies the senior team of a common rallying cry, clear priority can also never be achieved without willingness to address the dysfunctionality of the team. The leadership style in turn affects both as if determines levels of trust in the group. On the other hand, it is harder going when faced with excessive self-interest in the team and when there is no direction to manage for.

Issues of quality of implementation bear mainly on the last two “killers” as well as poor vertical communication as well as the following:

• **Poor horizontal coordination**: this is itself influenced by an ineffective management team that pushes people lower down in different directions. These will stand by their own superiors rather than risk rejection from them, which in turn reinforces the dysfunctionality at the top;

• **Inadequate down the line leadership development** which is itself associated to a flawed leadership style at the top, especially a top-down one (where seniors are the only ones with the global picture and making all major decisions themselves). Senior managers when looking for people to run cross-functional efforts then are surprised they cannot find them and hence conclude they need to decide on everything;

Poor vertical communication is the “killer” that is core in the whole system. It blocks learning about both quality of implementation and quality of direction. This is visible in many strategic documents that are heavy in detail on long term trends, customers and the competitive environment but lack a **coherent story, that can be communicated downwards, why the changing world needs the decided new ways of working together**. How can employees then exercise judgement to make helpful day to day decisions? And vice versa, how can they communicate upward about issues if they do not have a view on the direction. When they start to realise that they cannot communicate openly and directly with the whole leadership team about its role in blocking strategy implementation, they become frustrated and passive. The engagement of employees to do everything in their power to advance the business is lost.

Dealing with the silent killers can be done in three ways:

• **Avoidance**: using consultants to work around them. However, this will keep the organisation dependent on outside help, preventing it from learning how to learn;

• **Replacement**: hiring a new CEO that also replaces the rest of the senior team, meaning they are not directly implicated in the troubles of the old regime so they can start with a clean slate. However, at some point in time, they too may fall prey to the silent killers, having not learnt to deal with them head on. This time, people will remember that the CEO favours
replacement rather than engage in open discussion. Hence, those who want to speak up may be worried they will be ousted;

- Engagement: ultimately, this is the only viable option in the long run.

Beer and Eisenstat (2004) propose 5 key principles to ensure engagement via strategic conversations that:

- **move back and forth between advocacy and inquiry** (getting other people’s input on a strategy): advocacy alone sets management up to be blindsided by concerns that will emerge much later on. Inquiry alone often creates wide-spread frustration as employees look to managers to articulate a point of view to which they can respond, rather than to keep everyone going in circles;

- **deal with the issues that matters most**, regarding strengths and obstacles not operational details;

- are collective (engaging several levels across functions and the value chain) and public (keeping everyone below informed about what has been learned and what changes are planned);

- are without risk to lose one’s job;

- are carefully structured: this means finding a balance between a free for all problem solving session and a powerpoint with little or no discussion.

They have developed a 9 step process that takes these principles into account and, crucially, after being repeated several times, may lead to institutionalizing the kind of continuous, issue driven executive dialogues described earlier by Mankins and Steele (2006):

1. Start the conversation with the leadership team: this team must remove conflicting views about the aspirations of the organization, the threats and opportunities it faces, the value it intends to offer and create the conditions and culture to deliver by agreeing critical things that need to happen, organizational capabilities that are needed as well as the values that need to guide the efforts. They then create a task force of up to eight of their best managers (in the eyes of senior leaders as well as employees) that are given a clear and visible mandate to seek the unvarnished truth. Each of the members of the task force must have full support of the leadership team or their name will be removed from the list. This ensures they are seen as representing the entire organization while having enough credibility with both the senior team as well as the larger organization.

2. The task force is trained in interviewing and identifies a representative sample of pivotal people from all over the organisation. It is the task force, not senior management, that decides who to interview;

3. **Data collection focuses over several weeks**: first the strategy is explained and then a discussion ensues on strengths to be preserved and barriers to be tackled for the implementation. The focus is not on employee satisfaction or morale. At the end of the interview, the respondent is asked to name 2-3 critical issues to be shared with senior management. Interviews are kept confidential and task force members interview people outside of their own part of the organization, ensuring that interviewees do not feel intimidated;
4. **Major themes are identified** as each task force member selects and shares the 3-4 most commonly mentioned issues (in terms of barriers and strengths). Feed-back to the leadership team is prepared, incl. with descriptions of specific events or projects as well as powerful quotes, to ensure senior management is convinced the data is real and valid;

5. A session is held as soon as possible using a fishbowl format (the taskforce discuss their findings amongst themselves, with the senior team not allowed to interrupt not challenge, only to ask clarifications. The taskforce does not recommend solutions nor delivers a written report. They **only discuss perspectives that emerged as well as questions that the themes raise**. Seniors take notes;

6. The senior team **ascertains the root causes of the issues and develops a plan** to tackle them;

7. The senior team **meet with the task force to subject the plan to critique**. The task forces needs time to deliberate alone before responding;

8. The senior team **announces its revised plans** to the top 100 and initiates further dialogue. Changes are implemented;

9. The senior team **periodically repeats the entire process and extends it to subunits**.

Sull, Hawkes and Sull (2015) also conducted research (with 7600 managers in more than 260 companies, located in complex and volatile markets, across 30 industries) recently on why strategy execution is failing in, according to them, two thirds to three quarters of large organizations. They cite 5 myths, that (mis)guide execution, which to a large extent correspond to the silent killers and quality problems discussed earlier:

- **Execution equals alignment**: most organizations have a process of translating strategy into objectives, cascading these down the hierarchy, measuring progress and rewarding performance (using tools like management by objectives, balanced scorecards,…). More than 80% of surveyed managers say they have SMART objectives and the required funds to achieve them. However, this does not mean units support each other and work well together (e.g. only 9% of respondents say they can rely on colleagues elsewhere all the time and only 20% believe systems for cross-unit collaboration work, conflicts between units are handled badly 2/3rds of the time). Dysfunctional behavior is the result: duplication of effort, delaying deliverables, passing up opportunities,… This of course reflect the “killer” of poor coordination across borders;

- **Execution means sticking to the plan**: after investing enormous amounts of time and energy executives view deviations as a lack of discipline that undercuts execution. However, execution should consist of seizing opportunities and addressing unforeseen problems, in support of the strategy while coordinating with other parts of the organisation. Yet agility is sorely lacking (according to one third of the surveyed managers). Resources are often trapped in unproductive uses (only 20% say their organization is good at moving people and fewer than 1/3rd believe funds are reallocated well enough) and it is hard to disinvest. Of course, agility is not an excuse to chase every opportunity that crosses one’s path, which would show lack of discipline. These issues reflect the quality of learning and the central “killer” of poor vertical communication from the bottom upwards;

---

29 “Why strategy execution unravels” in Harvard Business Review, March
• **Communication equals understanding**: strategic objectives are poorly understood and often unrelated to one another as well as disconnected from the overall strategy. The issue is that top management goes for quantity of communication (e.g. number emails, town hall meetings,...) rather than quality (do people really understand what matters most). Top management tends to dilute its messages and change them frequently. Nearly 90% of middle managers say there is enough quantity. But only 55% of them can name even just one of the top five priorities. Also, only just over 50% of the senior exec team they have a clear sense how priorities and initiatives fit together. Only 1/3rd of their direct reports and 16% of frontline managers do. This reflects the “killer” of unclear strategies and priorities combined with poor downward vertical communication;

• **A performance culture drives execution**: past performance is the most frequently cited factor for promotion (two thirds of all managers name it). One is in the top 3 for hiring. However, too great a focus on past performance fails to recognize the importance of agility, which implies willingness to experiment which is impeded by fear of failure. However, fewer than 1/3rd say they can have honest an open discussions about the most difficult issues. 1/3rd says many such issues are considered taboo. 2/3rd would recommend to new colleagues to only make commitments they can surely meet. In addition, past performance trumps collaboration in most organisations. It is 2 to3 times more likely to be hired, promoted or otherwise recognized by hitting the numbers rather than by having a track record of collaboration. Only 20% believe the behavior of a manager who achieved objectives but failed to collaborate would be addressed. Clearly, this issue concerns a lack of quality of learning, with poor vertical communication as a “killer”;

• **Execution should be driven from the top**: in large, complex organisations, execution actually resides with “distributed leaders”. They are middle managers but also technical and domain experts in informal networks that get things done. Execution here emerges from countless decisions and actions, involving hard trade-offs that can only be made by those closest to the situation. Most of these leaders try to do the right thing. Frequent and direct intervention from high up only encourages to escalate conflicts rather than manage them, leading to losing the capacity to work things out together. In addition, lower levels lose decision-making skills as well as initiative and ownership. However, top executives should help to facilitate coordination via structured processes as well as by modeling teamwork at their own level. The need is clear as only 40% of middle managers anticipate problems or deal with them well. Also, 1/3rd believes there are factions at senior level and that senior exec’s focus on their own agenda. This all reflects issues with the “killers” concerning effectiveness of the senior management team and leadership style. It also concerns the lack of down the line leadership development.

To solve problems of execution, many organisations, believing in the myths described by Sull et al (2015), fall into the **alignment trap**. When execution stalls, the senior level tightens the screws on alignment e.g. by tracking more metrics, demand more reviews to monitor progress and make recommendations. But this then degrades into micromanagement, stifling experimentation required for agility and the peer to peer interaction needed for coordination. The starting point to addressing this is by redefining “execution” as “the ability to seize opportunities aligned with strategy while coordinating with other parts of the organization on an ongoing basis”.
Martin (2010), also criticizes the boundary between strategy “formulation” and “execution” in very similar ways to Sull et al (2015). To him, it does not make sense to say “a mediocre strategy well executed is better than a great strategy poorly executed”. A strategy that fails to produce a great outcome is simply a failure. This distinction derives from the idea that the thinkers are separate from the doers.

According to Martin (2010), this generates a vicious cycle. Some employees, set up as choiceless doers by the higher level thinkers in the strategy versus execution model, internalize this model (telling customers: “I’m sorry, there is nothing I can do, it’s company policy”). Others quickly learn the rules of the game and become mechanically obedient, disillusioned and disconnected. The fact that management takes the credit when there are results (“great strategy” ignoring that it is down below that their abstract strategy comes to life by staff making lots of hard choices) and staff the blame (“poor execution”) if not, creates a sense of helplessness rather than a sense of joint responsibility for success. Feeling disconnected, these employees do not even try to share data with senior management, who therefore are denied understanding of what is really going on as well as a diversity of strategic insights. These managers then must work around their own organization by hiring consultants. As employees find the resulting choices baffling, this makes them feel even more disconnected and convinced they are working for idiots. Eventually, everyone becomes belligerent. Management imposes executional rules and ways of operating that feel unilateral and arbitrary, while staff withhold information and work against the spirit of the strategy. Relations do not develop, but rather mistrust. Leadership then tends to take too much responsibility for success and plans ever more complex strategies and stringent implementation plans, while lower level managers back-off from taking responsibility. Of course, Martin (2010) is restating some of the myths that Sull, Hawkes and Sull (2015) already exposed, namely that execution means alignment, sticking to the plan and is driven from the top.

Martin (2010) recommends that the vicious cycle that starts with the belief that strategy is separate from execution be replaced by a virtuous one. This must start from valuing downstream choices and encouraging employees to send info back up. If employees are empowered to be choosers as well as doers, everyone will win. Empowerment is however not the same as getting buy in. Needing to persuade those below with workshops and presentations and change management consultants itself is both a symptom and a reinforcer of the separation between thinking and doing. This advice is in line with what Beer and Eisentstat (2000, 2004) as well as Mankins and Steele (2006) recommended.

Bower and Gilbert (2007) elaborate further on these points from the perspective of resource allocation: “Strategy is crafted step by step, as managers at all levels...commit resources.” and “strategy will only be realized if it is in line with the pattern of resource allocation decisions at every level...”. This is due to the nature of two main elements:

- Organizational structure, which refers to the division of responsibility among individuals and units with as a consequence that:
  - Knowledge is dispersed;

---

30 “The execution trap” in Harvard Business Review, July-August
31 “How managers every day decisions create-or destroy- your company’s strategy” in Harvard Business Review, February
• Power is dispersed: this relates not only to formal power (e.g. who has the right) but also de facto (who can commit in practice);
• Roles determine perspectives: people consider different facts, usually those most pertinent to the success of their role;

• Decision-making processes:
  • Processes span multiple levels with activities proceeding on parallel tracks: at the same time that higher-up corporate staff is rolling out initiatives, operating managers are already engaged in activities that undercut or enhance them;
  • Processes are iterative: commitments must be made, revised or stepped up as new realities emerge.

Montgomery (2008) also emphasises the ongoing, iterative nature of the strategy process, where the boundaries between formulation and implementation blur, as made clear in the table below.

Table 2: strategy as a set solution versus a dynamic process

<table>
<thead>
<tr>
<th>The Prevailing Approach:</th>
<th>What Is Missing:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy as a Set Solution</td>
<td>Strategy as a Dynamic Process</td>
</tr>
<tr>
<td>A long-term sustainable competitive advantage</td>
<td>Goal</td>
</tr>
<tr>
<td>The CEO and strategy consultants</td>
<td>Leadership</td>
</tr>
<tr>
<td>Unchanging plan that derives from an analytical, left-brain exercise</td>
<td>Form</td>
</tr>
<tr>
<td>Intense period of formulation followed by prolonged period of implementation</td>
<td>Time Frame</td>
</tr>
<tr>
<td>Defending an established strategy through time</td>
<td>Ongoing Activity</td>
</tr>
</tbody>
</table>

Source: Montgomery (2008)

Bower and Gilbert (2007), make several recommendations for senior executives on how to use resources allocation as a tool for ensuring the pattern that emerges is in line with the intended strategy. They start from the fact that most proposals are made to higher levels by lower levels and that what gets proposed (and what not) to a large extent shapes realised strategy:

• **Understand the people whose names are on the proposals** you read: you need to be able to judge not the proposal but the capacity for judgement of the people who make them;
• **Recognise the strategic issue and make sure it is addressed**: with each proposal, the first, most important question is “should we”. This can only be answered if it responds to an issue. The second questions is then “is this the way?”. However, most of the time the mistake is made to dive into the second question only;
• **Top executives must pay attention to getting all relevant power** (in terms of knowledge and position), from across the organisation, **in the room** to discuss the issues that trigger a demand for resources. Leadership also has to counteract the tendency of divisions to

32 “Putting leadership back into strategy” in Harvard Business Review, January
resolve conflicting perspectives on resource allocation on the basis of who has most power, via compromise that is not optimal for the whole or worse, by agreeing neither will challenge the other’s proposals;

- **Use operational managers to get work done across divisional lines:** properly resourced cross-divisional teams of operating managers, freed from divisional measurement and compensation systems, can focus on the issue whereas divisional managers will be more obsessed with protecting divisional turf. But then they will need strong support from the top level;

- Create a new context that allows leadership to **circumvent the regular resource allocation** process: out of the box, disruptive proposals tend not to come up easily through the normal channel. Top management needs to go explicitly after this and then may create a new box (separate unit, location, measures, reporting lines to the top…) to nurture it. This issue will be address more in detail in the chapter on “acting simultaneously today in support of different time horizons”.


- **Phase 1, basic financial planning,** corresponds to:
  - procedures to forecast revenue, costs, and capital needs and to identify limits for expense budgets on an annual basis;
  - information systems reporting on functional performance as compared with budgetary targets;

- **Phase 2, forecast based planning,** requires:
  - a longer time frame to accommodate, amongst other things, making estimates of capital needs that take into account trade-offs between a larger number of services and types of users served
  - this requires giving thought to the potential business impact of discernible current trends;
  - hence sophisticated forecasting tools combined with portfolio analysis make their entry;

- **Phase 3, externally oriented strategic planning,** implies:
  - taking on an external, objective outsider’s perspective to look at oneself in order to ascertain which new business capabilities need to be developed or markets need to be redefined to better fit strengths (dynamic resource allocation);
  - a formal grouping of related businesses into strategic business units (SBUs) or organizational entities large and homogeneous enough to exercise effective control over most factors affecting their businesses, which in turn triggers the distinction between corporate and business strategy and issues concerning shared resources, concerted action and the transferal of resources;
  - judging various strategic alternatives;

- **Phase 4, fully mature strategic management,** corresponds to:

---

33 “Strategic management for competitive advantage” in Harvard Business Review, July 1980
o a planning framework that cuts across organizational boundaries and levels (product/market units, business units, shared resources as well as concern and corporate levels) to facilitate strategic decision making about customer groups and resources;

o a planning process that stimulates entrepreneurial thinking:
  • where routine business requires no involvement outside of the SBU level apart from routine monitoring and an occasional intensive strategic review;
  • where manager’s thinking is challenged and stimulated:
    • focusing on a theme;
    • negotiating objectives e.g. requiring additional funding in return for newly proposed future achievements;
    • demanding new strategic insights;

o a corporate value system that reinforces top managers’ commitment to the strategy by recognising the importance of:
  • teamwork, which leads to task-oriented organizational flexibility;
  • entrepreneurial drive, or the commitment to making things happen;
  • open communication, rather than the preservation of confidentiality as it is impossible to be strategically managed without the involvement of wide niches of relatively junior people in many aspects of the strategic plans;
  • a shared belief that the organisation can largely create its own future, rather than be buffeted into a predetermined corner by the winds of environmental change.

It is clear that strategic issues enters into play only as of phase 3, with previous phases being concerned more with operational issues. Indeed, according to Gluck et al (1980), phase 2 systems will...

- fail to signal major environmental shifts;
- focus on current capabilities, rather than on the search for options;
- are usually oriented towards short- or medium-term operating performance at the expense of long-term goals, via incentive compensation as well as informal rewards and values;
- all too easily become a mechanical routine, as managers simply copy last year’s plan, make some performance shortfall adjustments, and extend trend lines another 12 months into the future.

Phase 3 however ends up being not much better in practice than phase 2 as Gluck et al (1980) explain how it becomes increasingly difficult to maintain strategic management as a process that is predominantly operated at the corporate level, sticking rigidly to a formal corporate calendar, as this tends to make strategic planning degenerate into a mind-numbing bureaucratic exercise, punctuated by ritualistic formal planning meetings that neither inform top management nor help business managers to get their jobs done. Unsurprisingly, phase 4 resembles most closely what Bryson (2011) and Mankins and Steele (2006) are advocating. More surprisingly, more than 30 years onwards from Gluck et al (1980), it seems there is still work to do to move to phase 4.
iv. Responding to a VUCA world

The reason why such a phase three approach is not helpful anymore is because, as stated earlier, we now live in a VUCA world. This means that it is not sufficient to consider issues that require transformation once in a while.

Eisenhardt (1998) refers to this as “event pacing” where organisations change in response to events (e.g. a new technology, poor performance, new customer demand, ...). It entails following a plan and deviating only if performance weakens. In stable markets, this is an opportunistic and effective way to deal with the occasional change. In contrast “time pacing concerns creating new products and services, launching new business, entering new markets, in a regular, rhythmic way with a relentless sense of urgency, concentrating energy around common goals. This rhythm is anathema to a rigid annual planning cycle. It has to follow the rhythm of the external environment (of customers, suppliers, complementers, governments,...).

According to Eisenhardt (1998) usually time pacing means moving faster but sometimes it may mean slowing down. This can also be done in a modular way with some aspects of a business changing more frequently than others (e.g. packaging more frequently than the core product). This may require adjusting capacities accordingly (e.g. ramping up production at some times, reducing it at others). It does not mean an organisation should change all the time. In fact, that is what happens when continuing to “event pace” when the environment changes rapidly. Then feed-back triggers constant reaction without taking any time to learn to get good at anything. Under time-pacing, managers must stick with a new venture long enough to learn. This help ensure that they do not overreact to the “noise” (unclear feedback) that normally accompanies new ventures.

Eisenhardt (2002) points out that the new precepts for strategy are simplicity, organisation and timing. “Simplicity” refers to refraining from formulating complicated and richly resourced strategies with too many people assigned to execute it, that are difficult to revise, as done in “event pacing”. As reality unfolds rapidly, there is too little of a simple focus to adjust flexibly. Rather, what is needed is for people to focus on a few critical processes and simple precepts (e.g. “maintain the brand”) to guide them so promising opportunities can be exploited when they appear but they can also be dropped rapidly when they fail to develop.

“Organisation” refers to the need to choose an excellent team, pick the right roles for the members and letting their moves emerge. This is to be contrasted to programming strategy from the top down and then figuring out an organization to implement it. Strategy “as organization” relies on two practices:

- Patching: the unique mapping of organizational units onto specific opportunities. Units can be swiftly added, split, combined and dissolved;
- Choosing scale: this refers to how large a business can become before it becomes too inflexible, given the speed of change in the environment.

---

34 “Time pacing: competing in markets that won’t stand still” in Harvard business review, March-April
“Timing” deals with the fact that the environment does not move slowly nor predictably. This requires an ongoing mix of small, incremental changes as well as mid-size and large, radical changes that reinvent the business. Most of the time, strategy refers to the small, relatively safe changes that elaborate on aspects of the core business. Occasionally mid-size moves must be made and even more occasionally, large sized ones. But strategists must pursue unique combinations of all three avenues, linking them in ways that make sense.

Eisenhardt (1998) however state that time pacing does mean managers must to excel at managing transitions (e.g. from one market to the next, merging and splitting units, etc.). This typically involves many people, many of whom may not have worked together before. As these transition points are less frequent than other activities, managers have less opportunities to learn this by experience. Yet getting them right and reducing the time it takes become more crucial, the faster the environment is moving and opportunities are constantly shifting. If you stumble, it becomes harder to catch up. Hence, thought needs to go into the contextually appropriate choreography of transitions and all employees need to understand this so the dance can begin when needed.

In addition, according to Eisenhardt and Brown (1999) the ability to make fast, widely supported and high quality strategic decisions on a frequent basis must be ramped up. This is done in four ways:

- Building collective intuition that enhance the capacity to see threats and opportunities faster and clearer: executives need to have many more “don’t miss” scheduled meetings and access to more, real-time, information concerning internal and external operations. This is intensely discussed in an issues based way. They avoid accounting info (lags behind reality too much) as well as forecast (will be wrong anyway). They focus on internal metrics that are tracked over time (monthly, weekly and even daily) as well as innovation related ones (e.g. elapsed time, speed, rate... as in downtime between projects, time from concept to market,...). In addition they look at external info e.g. technical developments, “gossip” in the sector,... All of this counteracts the tendency of executives to be groups of strangers who do not know how to engage productively with each other. Familiarity makes frank conversation easier. Also, automatically, they start to organize anti-podal roles (e.g. long vs short term, status quo vs change,...). Intuition is developed via experience;

- Stimulating quick conflict to improve quality of strategic thinking without sacrificing significant time: conflict stimulates innovative thinking (seeing more opportunities) and creates a fuller understanding of options (their assumptions) and decreases tendencies to overlook key aspects of decisions. One way is to assemble highly diverse teams (e.g. in age, gender, background, experience,...). Another is to use “frame-breaking” tactics like scenario planning and role playing. What matters is to generate different perspectives as well as establish the norm that constructive conflict is expected. As a rule, there should also always be three of four options to decide on. Not only does this increase confidence a valuable option is not overlooked, but in addition, executives learn to understand their own preferences. And having more than two options helps avoid black or white discussions;

---

35 “Time pacing: competing in markets that won’t stand still” in Harvard business review, March-April
- **Maintain discipline** in the pace that drives decision-making to a timely conclusion: they keep formally track of how long they keep dealing with an issue. If it takes too long, then either the issue is too big or management is procrastinating. They also view decisions in a larger web of choices. Also, instead of just analysing in the abstract, they decide to test options in practice. They also avoid stressing the rarity and gravity of strategic decisions, leading to a tendency to procrastinate at the start of the process and then later on letting the issue languish or making “shotgun” decisions against deadlines. Rather, if consensus cannot be reached, they vote, with a higher weight for the manager with the largest stake in the outcome. This also communicates that a realistic view of conflict as valuable and inevitable.

- **Defuse political behaviour**, where managers use info to their own advantage, hence distorting the information base, and which creates unproductive conflict and wastes time: this is supported by reinforcing common goals and a shared vision. In addition, the CEO never takes away decisions that belong to his executives. He/she focuses on the level of the team as a whole. Also, humor defuses politics. People with a positive frame of mind have more accurate perceptions of each other’s arguments and are more creative. It also allows managers to convey negative information in a less threatening way.

Camillus (2008)\(^{37}\) labels strategy as a “wicked problem”\(^{38}\), as reflected in five characteristics:

- Dealing with problems that involve many stakeholders (e.g. employees, trade unions, shareholders, investors, customers, suppliers, partners, creditors,...) with different values and priorities, each with the capacity, to various extents, to influence the organization. The greater the disagreement, the more wicked the problem;
- The roots of the issue are many, complex and tangled with prior advantages turning into disadvantages and various linked issues that compound a top-line challenge (e.g. like slowing growth), hence gathering more data does not resolve this;
- The problem is difficult to describe and define and changes with every attempt to address it: envisaging one course of action triggers the nucleus of another problem, for which yet another strategy is needed, which in turn counteracts other elements of the strategy;
- It has no precedent: the course of action is different than what was done before and may require new capacities);
- There is nothing to indicate the right solution or answer to the problem: there is a lot of inherent uncertainty that cannot be analysed away.

Coping with this “wickedness” is done broadly in four ways:

- **Involve stakeholders, document opinions and communicate** by
  - organizing retreats, workshops or focus groups with external stakeholders to share perspectives and brainstorm to identify aspects of the problem as well as develop future scenarios. This does not aim for consensus regarding what the problem really is but just enough understanding of each other’s perspectives to be able to work together to tackling it. It also generates novel perspectives and strengthens collective intelligence, counteracting groupthink and cognitive bias;

---

\(^{37}\) “Strategy as a wicked problem” in Harvard Business Review, May

\(^{38}\) Derived from the seminal article by Rittel and Webber (1973) “Dilemma’s in a General Theory of Planning” in Policy Sciences 4
- frequently organizing social events with employees, encouraging them to interact;
- documenting the opinions, assumptions, ideas, concerns on an ongoing basis, which itself generates new ideas;

- **Focus on action:** experiment with several feasible options (via prototypes and pilots), learning from mistakes (which are taken as a basis for the next decisions) and hence grasping the problem better as they go on, rather than attempt to think through every option to choose a single “best” one. By choosing options wisely, this will conceivably lead to results in a variety of uncertain futures (robustness);

- **Define the corporate identity** (what matters), enabling the organization to engage in experimentation focusing on opportunities and threats, without losing its true sense of purpose;

- **Adopt a “feed forward” orientation** by engaging in the scenario planning exercises already referred to, opening up minds to diverse futures in 10, 20 or even 50 years. In addition, one must continuously scan the environment, especially the periphery of what one usually watches -to detect “weak signals”-, rather than conduct periodic analysis on a fixed timetable. **Weak signals** will be discussed in more detail in a separate chapter.

Courtney (2001)\textsuperscript{39}, also makes in the figure below that phase 3 planning, as described above by Gluck et al (1980), only works in environments with little complexity and little dynamic, which are the opposite of the VUCA world that the above authors are referring to. The key in a VUCA world to them is flexibility (nowadays referred to as “agility” as in Doz and Kosonen, 2014). It also shows that while decentralization is a good tool to deal with complexity, it is not very good at dealing with rapid change. At the same time, approaches like scenario planning that were developed to deal with uncertainty inherent in dynamic environments, are not well equipped to deal with complexity.

**Figure 6: approaches to responding to the environment**

Courtney (2001) therefore proposes that becoming a “learning organization” in the sense of what Senge\textsuperscript{40} (1990) proposes, is required. Clearly, this points to the importance of understanding the

\textsuperscript{39} 2020 Foresight: crafting strategy in an uncertain world.

\textsuperscript{40} The fifth discipline.
organizational paradigm within which one is attempting to engage in strategic management. **We will address organizational paradigms in more detail in a next chapter.**

Finally, Hagel, Brown and Davison (2008) also focus on the VUCA reality. However, rather than focus on adaptation to a changing environment, their interest is in **shaping strategies which concern “mobilizing legions of other players through positive incentives... to create and capture enormous value as they learn from -and share risk with- one another”**. This is a lot bolder than simply shaping the performance of one’s own organization. It concerns **shaping an entire ecosystem of actors.**

The corollary for “shaping” in the public sector is referred to as “transition management” or “systems innovation”. It will be further discussed in a separate chapter.

Hagel, Brown and Davison (2008) put forward three key elements of a shaping strategy that together, quickly attract a critical mass of participants in the endeavor, unleashing powerful network effects making the whole effort hard to stop:

- **A shaping view / narrative to focus participants**: confronted with rapid change, most actors instinctively magnify risks and downplay potential rewards, leading to timid action or inaction. Hence, shapers start with a clear and compelling view of the relevant sector, making sense of the fundamental forces at work. This then changes the way other actors perceive opportunities. By altering their mind-set they **change the incentives for these actors to get involved**. They help other actor envisions the rewards and they reduce the risk by making the positive outcomes appear inevitable. The shaping view is however never very detailed. It leaves much room for refinement and experimentation by others. It is to be distinguished from what usually is referred to as “vision”. This is too narrow as it only describes the direction of the organization that articulates it. But a shaping view relates to all relevant actors. It is based on a creative act of imagination what the future should look like for the whole industry and challenges conventional assumptions. At the same time, a shaping view is less abstract than an organizational vision. It guides more tangibly where everyone should invest energy, attention and capital. A good shaping view passes the following tests:
  - Provides long term direction and explanation of how things will change;
  - Clearly identifies attractive opportunities for a wide range of participants;
  - Ties the opportunities to broader economic, cultural, technological forces at work;
  - Sufficiently high level to allow for unexpected developments yet specificenough to direct executives faced with hard choices;
  - Aggressively and continuously communicated by top management to external and internal audiences. It needs to do this itself to ensure the message does not become distorted. It needs to be explicit about how near term choices will be affected.

- **A shaping platform to provide leverage to reduce investments and effort participants have to make**: a “platform” can provide two kinds of leverage. The first is **“interaction” leverage.** This reduces cost and effort for diverse participants to coordinate. This may be facilitated with technology but the core is a set of practices and protocols designed to facilitate interaction. A second type is **“development” leverage** which reduces the investment needed for developing new solutions. Again, this may, but does not have to involve technology. A platform encourages distributed innovation, assembling a rich ecosystem of diverse niches

---

41 “Shaping strategy in a world of constant disruption” in Harvard Business Review, October.
allowing participants to specialize in areas they know best, avoiding head on competition with everyone else. At some stage, secondary and tertiary shapers can arise. A good platform exhibits 5 characteristics:

- Promises benefits to participants;
- Supports a diverse set of participants and offers opportunity to create value in various niches;
- Can scale up the number of participants without generating unacceptable costs for the shaper;
- Continuously evolves, providing incentives for participants to engage regularly with the shaper and share their own learning and plans;

- **Shaping acts and assets which persuade participants that the shaper is serious, can pull off the shaping effort and that its power does not a pose a threat in the future:** assets matter so being large and established is a bonus for a shaper. Smaller players can also shape but then they need to access assets through strategic relations with larger ones. Demonstrating the ability to shape can be done in three ways. The first is to gain critical mass quickly via strategic relations with established players. Second, mobilise the multitudes. Third, by shaping again and again, as today’s world is in a sustained disequilibrium rather than an punctuated equilibrium. A shaper needs to exhibit 6 characteristics in this area:

  - Credibility that the shaper is in it for the long haul;
  - If a smaller shaper, access to assets of larger ones;
  - Assurance that the shaper will not turn against participants;
  - Tolerance for risk and patience at senior level and with investors;
  - Ability to mobilise;
  - A CEO and/or leadership team with a forceful personality to build a convincing shaping narrative.

Hagel, Brown and Davison (2008) and Hagel (2003) as well as Hagel (2015) refer to the new way of developing strategy as FAST:

- **Focus:** imagine what the future will look like in five to ten years. Borrow from scenario planning, engage in creative exercises, hold off-site retreats to explore initiatives. This work best with people who are deeply creative and from diverse domains, who can really challenge management’s existing assumptions. Issues here can be that senior management avoids this entirely, claiming the future is too uncertain. Or it aims too low, underestimating the amount of change that will occur as well as the size of the opportunities. Finally, it may fail to rally around a common view;

- **Accelerate:** identify the 2-3 operating initiatives (experiments) that, if carried out over 6-12 months, will accelerate movement to the preferred future. Specify the needed resources and metrics with rapid feedback loops that enable learning (with a focus on whether acceleration is happening, hence with a time dimension, while staying away from financial metrics as they are lagging). Make sure their operational objectives are linked to the long term destination. Do not support too many initiatives (e.g. as insurance), under-resourcing all of them. “Focus” combined with “accelerate” will surface all kinds of disagreements that would have been

---

shoved under the rug (since long term scenarios without near term implications are not taken really seriously by management);

- **Strengthen**: on the same time horizon, identify two to three major organisational obstacles that if addressed, would speed up the process. Apply metrics and objectives as for the initiatives;
- **Tie it all together**: refine with a view to the future based on what you learn along the way. Focus on assessing the implications of near term achievement for the long term direction. Remember that small steps without the long view will not take you far.

### d. Conclusions

The previous chapters are summarised below. These summaries can be used as scales to determine for an organisational entity what orientation it is closer to. Ideally, this is done using a “likert” scale for every statement (from strongly disagree to strongly agree) and then comparing the scores for statements on the left with those on the right (e.g. with a radar graph). Normally, strong agreement on one side should go together with strong disagreement on the other. In addition, the notion of strategy should align with the nation of strategic management. If this is not the case, then it is a fruitful starting point for discussing the deep understanding of the statements. Of course, it is possible that all questions evoke strong disagreement, indicating no notion of strategy and strategic management at all. As such, it is a tool to support the first step in Bryson’s (2011) model of strategic management: reaching agreement on what it means.

#### Understanding of the nature of strategy

<table>
<thead>
<tr>
<th>Our entity ...</th>
<th>...has an understanding of the main aspects of the underlying causes of major challenges facing the entity. This is coupled with insights concerning leverage points (e.g. obstacles, opportunities,...) on which action should be focused. Together, this constitutes coherent action backed by an argument.</th>
<th>...has written down mission, vision, values, objectives, initiatives as well as resources to successfully implement the latter.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>...continuously combines an understanding of the forces that continuously shape a rapidly evolving environment with a clear sense of what the future should look like as well as what this means for near term decisions (strategy of trajectory)</td>
<td>...puts in place key resources to occupy a favourable position in the future, to be sustained for some time, in a relatively stable environment (strategy of terrain)</td>
</tr>
</tbody>
</table>

#### Understanding the nature of strategic management

<p>| Our entity sees strategic management as... | ...a transformation process, through which a coherent story regarding (system) | ...a process of drawing up (as well as keeping current) organisational plans that drive and |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>...securing broad commitment and cross-divisional as well as inter-organisational collaboration and ensuing trust at all levels</td>
<td>...focussed on vertical alignment of objectives and enhanced control</td>
</tr>
<tr>
<td>5</td>
<td>...strategic thinking, a creative and intuitive process, which involves challenging assumptions and (informal) learning from all possible sources, synthesising this into an integrated, not too detailed, perspective on the direction the entity should pursue</td>
<td>...analysis of hard data and ensuing programming, focussing on the further elaboration of established visions and strategies</td>
</tr>
<tr>
<td>6</td>
<td>...an ongoing process of timely issue identification and resolution, at various levels, driven by unfolding events and emerging information, made visible to all as a rolling agenda into which new issues can be inserted at any time</td>
<td>...a tightly scheduled, formal, annual process of planning and reviewing of lower level organisational units by the higher level, with the planning period being tightly followed by across the board implementation during the rest of the year</td>
</tr>
<tr>
<td>7</td>
<td>...engaging those people (especially the young, newcomers and those at the periphery) who are deeply involved with the specific issues at hand and who, through focused experimentation test options in practice and gain new insights, that senior executives, as closely following sponsors, can share, while at the same time ensuring unity of purpose (to avoid fragmented resources or conflicting agendas rather)</td>
<td>...senior executives bringing in external consultants or using a small group of internal planners to support them</td>
</tr>
<tr>
<td>8</td>
<td>...asking the right questions, framing them as strategic, moving back and forth between inquiry (asking feedback) and advocacy (proposing), assuming and seeking constructive conflict as the norm</td>
<td>...providing the right answer to questions labelled as strategic</td>
</tr>
<tr>
<td>9</td>
<td>...working from the future back, preparing minds that it will be very different from today</td>
<td>...working on the basis of a high quality, elaborate analysis of the present situation</td>
</tr>
<tr>
<td>10</td>
<td>...intensely and frequently discussing real time information relating to the internal environment (with a time dimension e.g. rates, durations, speed... and a focus on innovation) as well as the external (regarding recent developments and even gossip)</td>
<td>...reporting on (accounting) metrics (indicators) that provide a view of the past performance of the ongoing business</td>
</tr>
</tbody>
</table>
2. Strategic management in an organizational context

a. Moving from a bureaucratic to a flexible organizational paradigm

Wauters (2017) makes a thorough analysis of two fundamentally different paradigms concerning how to organize. Only key elements are repeated here in order to ascertain how they may influence the nature of strategic management.

In the article the differences between bureaucratic and flexible paradigms are mapped. The bureaucratic paradigm, builds on the "scientific management" of Taylor, whereas the flexible and, by extension, networked paradigm, refers to modern socio-technology (MST) which draws on systems theory. TQM, “Lean Thinking” and the “Learning Organisation” are all approaches that originated independently from MST but integrate many of its elements.

Figure 7: organisations / networks as system

Source: adapted from Kuipers et al 2012

The figure above shows what is meant by a system. It is essentially a network of interdependent activity (visualized by the nodes). People and resources support this activity but the network itself is made up of activity.

A first set of issues to distinguish the two paradigms is phrased in the following way:
• the extent to which the provision of the service, its preparation (purchasing, planning, ...) and any support activities (HR, finance, ...), together referred to as "operations" are put in separate units or not;
• the extent to which any of the (types of) operational activities mentioned above may or may not be split into several parts, performed by different people;
• the extent to which operational tasks of the same type may or may not be concentrated in specialised units.

The bureaucratic paradigm, strives to maximise the division of operations into (simple) tasks and to put them in separate units. To fulfil an order (a wish of a client), the interplay of many units, or a so-called "complex organisational structure to execute simple tasks", is needed. On the contrary, the flexible paradigm strives to bring together as many operational tasks as possible in one single team. Thus, to fulfil the order, only one organisational unit is necessary. This results in a "simple structure with a complex set of tasks".

Both are visualised below (adapted from Van Laar et al, 2015). Clearly, the bureaucratic form of organisation is highly complex. Any order requires an enormous amount of interaction between organisational units (across boundaries). The problems with this will be familiar to anyone who has run up against organisational silos.

Source: Van Laar et al, 2015
So why do bureaucracies exist? The main idea behind them is that the maximum division of labour in simple tasks and grouping them together enables economies of scale. That is fine as long as the organisational environment remains stable and hence relatively predictable. However, in today’s VUCA world, those economies are dwarfed by the coordination and switching costs that rise exponentially when an organisation has to constantly adapt and innovate.

As such, the preceding set of issues says nothing yet about how these activities are “regulated” (managed). Therefore, we need to consider a second set of questions:

- the extent to which regulatory tasks are separated from the execution of operations and put into other (management) units;
- the extent to which the strategic, tactical and operational regulation is also assigned to different units.
  - Operational regulation concerns taking decisions during daily work;
  - tactical regulation is about improving daily work (incl. by changing system conditions aiming to achieve the fundamental purpose of the work as well as by reallocating resources);
  - strategic regulation asks questions about the purpose of the work, or whether the activities must be scaled up, etc.;
  - there is a large degree of overlap between tactical and strategic regulation as tactical regulation concerns the “how” concerning the strategic “why”.

- the extent to which the various part of the regulation cycle have been separated as subtasks and assigned to separate units. Indeed, regulation can be represented as a four step cycle of observation, evaluation (interpretation), decision and implementation, as depicted below;

- the extent to which ‘systems’ (collections of standardised, formalised procedures that fix activities into routines) specify maximally what should happen, or whether they provide minimal critical specification (supporting behaviour without fixing it).

**Figure 10: four step regulation cycle**

Source: author

Within the bureaucratic paradigm one rather chooses to separate (parts of) regulation from execution. Also, one chooses to maximally specify based on systems. Within the flexible paradigm, the essence of self-steering is that regulating and execution go together as much as possible in one unit, with a minimum critical specification by systems.
Thus, this second set of issues can be summarised as choosing between the “regulation of service providers”, or “service providers who regulate in interaction with service users”.

It must be clear that the bureaucratic choice to separate regulation separated from execution, with a maximum specification of the work by systems, automatically follows from the choice for simple tasks within a complex structure. This is needed because the work floor does not have the overview over the whole process any more. This resides now with higher levels. This therefore gives rise to what is referred to as top down command and control style management.

The main problem that plague bureaucracies are that they are not very good at innovating or, to use a more fashionable term, at being “agile”. They are only efficient also long as the external environment does not change much. The main reasons for this is that managers, who sit in a position to have the overview of the entire service delivery process, are therefore typically too far removed from the action, hence unable to really determine what is going on. Information that is sent upwards must by definition be abstract (hence not reflecting the diversity and messiness of the real world) so as not to overwhelm managers. Frontline staff in this way also become “programmed” to look at and interpret the outside reality in the way the organisation has set this up to happen (e.g. via targets). In any case, even if they would spot trouble that the pre-programmed way of perceiving would miss, they do not have much regulatory capacity to act on it as this resides mostly with the managers. Such arrangements do not provide a good basis for agility and innovation which requires to look at reality from different perspectives than the usual one, see the real opportunities and threats and act on them swiftly. Being able to look at reality from a different perspective and hence going a new understanding of the situation is referred to as “double loop” learning. This essentially adds a new step (re-norming) to the regulating cycle that was discussed above. The figure below visualises this.

*Figure 11: double versus single loop learning in the regulating cycle*
An example of tactical regulation may clarify things. When customers of a bank persistently complain because their cards are swallowed by the ATM (observation), then banks can interpret this as forgetfulness of the customers (they leave without taking their cards out) and hence try to remedy this by multiple bleeps and warnings that they should not forget their card after the transaction (decision and execution). Or, usually after it is noticed that customers keep complaining, the bank could question its assumptions (re-norming) by taking the user perspective. Then, they could realise the issues is not forgetfulness but an inappropriate process from the point of view of the customer. Customers come to get money. Once they have it they leave (and hence sometimes leave the card in the ATM). However, this points to the solution: if customers can only get their money after they have retrieved their card, then they will never forget it. This is tactical regulation as processes are improved. It is not strategic regulation as the fundamental purpose of the process is not questioned.

The cases that are described in Wauters (2017) make clear how redesigned service delivery organisations can become structurally flexible by installing so called self-managed teams. A first crucial step in creating such an organization is to discover its purpose, from the perspective of the user. This is a firm basis for multi-functional teams that have a high degree of regulating capacity to accurately see the challenges the external world throws at them, as well as absorb them as much as possible, without any need for intervention from “management”. However, from time to time, an issue may arise which frontline teams find themselves unable to deal with in a structural way (e.g. recurring problems in dealing with another organization) which negatively affects quality of the service, defined as meeting the purpose of the service from the user’s point of view. Only in such cases does management need to get involved. While often concerning tactical regulation, such cases then become “strategic issues”, in the sense of Bryson (2011) as put forward earlier, where there is a need for knowledge exploration, new concepts, changes in basic stakeholders (e.g. clients) etc., AND, importantly, involvement from management. Teams in flexible organisations ALWAYS try to deal with these strategic issues themselves first, and, in many cases, succeed. Hence, in flexible organisations, there are strategic issues that never have to come to management’s attention, and there are strategic issues that management does need to take on. This is described in the table below.

Table 3: relation between types of regulation and types of issue

<table>
<thead>
<tr>
<th>Operational regulation</th>
<th>Operational issues</th>
<th>Strategic issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tactical regulation</td>
<td>Concerns “how” of the work (system conditions and resource allocation) requiring knowledge exploitation, refining but not questioning current strategy, process management and improvement, use of existing technologies, maintaining relations with existing stakeholders</td>
<td>Concerns “how” of the work (system conditions and resource allocation) requiring knowledge exploration, new concepts, changes in basic stakeholders (e.g. clients) and/or relations, radical new technology.</td>
</tr>
</tbody>
</table>

In bureaucracies: handled by higher level management
In flexible organisations: mostly handled by self-steering

---

43 Example provided by Jeremy Cox
In bureaucracies, all strategic issues must firstly be recognised as such by management and, secondly, dealt with by them. However, as made clear above, management has a hard time recognizing these issues as they are too far from the action and the frontline workers have been programmed to focus only on collecting the rather abstract information that needs to be reported upwards, rather than see what is really going on in the ever changing environment. And even if management can determine what action is needed, it is a challenge to then communicate this downwards to frontline staff who have not be privy to the thinking that came beforehand.

In the next section, we will elaborate further what the implications are of the two paradigms for the use of different sources of insights in strategic management.

### b. Channeling insights in different paradigms

#### i. Three sources of insight

Our main questions still remains: is strategic management concerned with improving performance of ongoing programs or redefining performance to meet new challenge? We now understand that the latter depends on the capacity to engage in double loop learning. The answer to the question therefore lies in understanding how various sources of insights are used within the two organizational paradigms to support such double loop learning.
Campbell and Alexander (1997) state that strategy development is comparable to progressing through a swamp but that there are two pieces of firm ground that can help: purpose (what the organisation exists for, to be differentiated from “constraints” or what the organization must do to survive, to stay in the game) and insights.

Campbell and Alexander (1997) put forward that insights into how to create value rarely emerge from planning meetings and that “planning processes are not designed to accommodate the messy process of generating insights” (p. 48). Insights, according to them, rather come from varied and hard to control ways that are often more about implementation than strategy development, where practical issues which often arise with line / operating managers, point to new way of doing things (e.g. in terms of new kinds of relations with suppliers, customer segments requiring a new service, processes that can be done more efficiently). Bryson (2011) also stated that “...strategic planning is not synonymous with creation of an organisation’s strategies.... numerous sources, planned and unplanned. Too much... reverence for strategic plans can blind organisations to other... sources of information, insight, and action.” (p. 20).

Referring to complexity theory and to Mintzberg’s work, Hamel (1998) also stated that strategy is not produced by planning (plans are) and that strategy emerges (as a pattern). However, he also learned from complexity theory that one can provoke emergence by creating a set of pre-conditions. The fundamental challenge for scholars of strategy is therefore to understand what the conditions are that improve the odds of an insight occurring and then being translated into innovative strategies. He suggested that five preconditions are key:

- New voices: top management must give up its monopoly on strategy creation. Young people, newcomers and those at the periphery of the organization deserve a larger share of voice;
- New conversations: rather than the same people talking to the same people about the same issues, year after year, they should focus on creating a dialogue that cuts across all organizational and industry boundaries, juxtaposing previously isolated knowledge in new ways;
- New conceptual lenses, that enable to reconceive capabilities, needs, etc.
- New passions: people embrace change when it offers the prospect of new opportunity, of creating a unique and exciting future in which they can share;
- New experiments: maximizing the rate of learning about which strategies will work and which will not, without betting the entire house.

According to Campbell and Alexander (1997), three main orientations or “camps” regarding the process of gaining insights, crucial to recognize and deal with strategic issues in strategic management, exist. They are the operating camp, future gazing camp and the behaviour/culture camp. Essentially, as depicted below, they provide the sources of insight to enable re-norming by taking up a different perspective.

---

Hamel’s (1998) preconditions underpin each of these orientations. However some are more crucial than others given a specific camp. The three orientations, as well as their use under the two organizational paradigms, are discussed each in turn in the next sections.

**ii. Operating camp**

To Campbell and Alexander (1997) this camp is about engaging in reengineering, time-based competition, TQM, empowerment, six sigma…and other tools for evaluating effectiveness of today’s operations and finding better ways of doing things. Sometimes this is not termed ‘strategy’ as such, since doing these things make sense for most organisations and does not represent difficult to reverse choices of resource allocation. Essentially, they revolve around taking the user perspective and then re-arranging the organization accordingly.

For Bryson (2011), issues can also be surfaced by a goals approach (identifying issues in terms of achieving those or associated indicators and/or success factors) or by identifying misalignments between mission, values, mandates, goals, strategies, actions and systems. This corresponds indeed rather to the operating camp approach to strategic management. It is concerned with harnessing the power of the user perspective to support re-norming (double loop learning).

When looking at this from the perspective of the two organizational paradigms, it is clear that many of the insights that arise from this source will be taken up directly by the multi-functional, self-steering teams that characterize the flexible organization (e.g. learning how to deal with a particular

---

45 The tensions and systems analysis approaches are not primary methods for issue identification but rather serve to deepen results of the other approaches
new demand). **Only when an issue is recognised that they cannot deal with themselves** (e.g. systems conditions that stand in the way of fulfilling the purpose of the service, new demands for which the team cannot itself devise a response), **is this discussed with management**, including all the insights that the frontline staff already have about the issue and how to resolve it. **It is then put visibly on the strategic agenda, until resolved.**

**In bureaucratic organizations**, as stated earlier, this source of insight will be virtually non-existent. The **perspective is top management’s** which, via procedures, targets, ICT systems etc. is imposed on all others. Usually, **issues stay unrecognized and therefore fester, until they generate a crisis.** As discussed in the section that focused on issues, **crises are not strategic issues but the consequence of not having recognized and dealt with them.**

Hence, **if the “operating camp” is to become a fruitful source of insight to be used in strategic management, it is crucial that organisations first transform themselves from bureaucratic to flexible ones.**

**iii. Future gazing camp**

For Campbell and Alexander (1997), this focuses on **defining factors that are critical to future success, based on formal strategic analysis** e.g. SWOT analysis, industry analysis, scenario analysis, core competences, ...

Bryson (2011) also accommodates the approach of “future gazing” within the analysis of the internal and, specifically, external environment (steps 4 A and 4B) to informing issue identification (step 5) on the basis of a direct approach (straight from mission, mandates, SWOTs) or an indirect one (brainstorming possible actions towards the mandates, mission, SWOTs,... first, then clustering them into groups and derive issues from that). It relates to harnessing the **power of various perspectives from the future to support re-norming.**

Even **flexible organisations**, able to see issues that arise from their daily interaction with users, by taking the latter’s perspectives, cannot see what has not yet materialized in today’s realities. This is not a problem if change in the outside world is not too fast. Then, at some point, such teams become aware of the issue and can still address it in a timely way. However, the **danger lies with tsunami like change.** Even flexible organisations can be overwhelmed. Hence, it **pays to engage in “future gazing” to avoid being caught of guard in the future by preparing for it today by imagining multiple futures and looking at today from those perspectives.** This matters more when being prepared for possible futures requires long lead times combined with difficult to reverse and path dependent allocations of resources. **At least flexible organisations already think of the outside world as dynamic rather than static, which makes them more likely to take future gazing serious.**

**Bureaucratic organisations** are once again at a disadvantage compared to flexible ones. The former are used to **thinking of the outside world as relatively predictable.** Hence, they find it harder to take the idea of “future gazing” serious. At best, they would **engage in such an exercise to “tick the box”,** without it really affecting the existing mental models.
iv. Behavior and culture camp

According to Campbell and Alexander (1997), this camp concerns a clear vision that creates a tension between now and the future, which is deemed key to getting new insights. Hence this approach focuses in the first instance on strategic intent, mission and vision. This is then complemented by organisational learning, which focuses on the conditions to increase the chance of insights emerging.

Stopford (2001) likewise states that strategizing needs to put emphasis on the role of people throughout the organization. It needs to become more distributed, but, at the same time, it needs to remain strongly networked. In this way, empowered people can make decisions, underpinned with knowledge of the basic strategy (where we are going, in what businesses, with what core culture).

“Strategy today is nothing without the passion and vision from the people creating and implementing it. Indeed, dreams need to be at the front and center...” (p.168). He refers to entrepreneurs who often state their goals in emotional terms that lend new meaning and dignity to the work required. They do not just have goals, but dreams that are necessarily irrational within today’s logic. He also warns not to confuse this approach with a mere top-down imposition of a “stretch” target. It is more productive to let teams translate the dream into a “reach” target they impose on themselves. He also makes clear a dream is not the same as a vision statement (a complicated, political sounding memo no one takes serious). A dream will attract new people that see the organization as having a passion to create something good or exciting.

Montgomery (2008) connects Stopford’s (2001) points to the second element put forward by Campbell and Alexander (1997) as a piece of firm ground next to insights, namely “purpose” which is meant to be a “clear sense of why they matter”. However, Montgomery (2008) makes the point that this sense of purpose is itself subject to change and that leadership has a crucial role to play here. Her starting point is that strategies are difficult to spell out in their particulars. There will always be choices that are not obvious and contingencies (good or bad) that cannot be anticipated. Hence senior management needs to step in and clarify a point, help translate an idea into practice, refashion or add an element to the strategy,... Strategy implementation and (re)formulation blur in this arduous process. It is the job of leaders to view challenges through the lens of the whole and faithfully translate purpose into action. However, in doing so, it is crucial to remain open to the idea this purpose itself may sometimes need to shift. Judgements made at such moments can make or break a leader and an organization. Top leadership remains the guardian of purpose. A shift cannot be made unawares. This is why the job of strategist cannot be outsourced. However, that does not mean a shift happens in a cataclysmic way (e.g. a grand restructuring or pronouncement) but rather decision by decision, year after year. This is the difference between defending an organization’s added value at a specific moment in time and ensuring it is adding value over time. Holding on too strongly may lead the organization to being controlled by a perception of value even if that value has diminished in significance. It encourages managers to see their strategies as set in stone, and, when seeing trouble ahead, to go in the defensive (e.g. the story of Apple’s initial rise and fall).
This corresponds to the notion of “vision” as put forward by the originator of the notion of the “learning organization”, Peter Senge (1990, 2008\textsuperscript{46}). For him, no one can “give” someone else a vision. People need to dig deep to find their own personal answers to the questions: “Why would/are you really doing this? What matters deeply to you?” This is usually connected to family, community, the organisation, the world,... If people do not have this, all they can do is sign up to the vision of someone else, which results in compliance, not commitment. No one can force others to develop their own vision. But one can create a climate or culture that encourages the development of personal, and from this, shared visions. This is what leadership is all about. Leaders create conditions for shared vision by continuously sharing their own personal vision in such a way that others feel triggered to also share theirs. They are also prepared to ask: will you follow me? This is a vulnerable position to be in, much less comfortable than announcing goals for others to follow. This means they go to others to test their vision NOT to convince them. But of course, they must genuinely care for their vision at the same time. Vulnerability is a condition for trustworthiness and for ensuing trust. Leaders listen to others, which is more difficult than talking, while at the same time making others willing to look at things from a different perspective. They allow multiple visions to coexist, listening for the right course of action that transcends and unifies all the individual visions. Shared vision then becomes the answer to “what do WE want to create”. There is then a commitment to each other, having the same picture in mind, not just to oneself. Vision is also not just “dreaming” as it is based on accurate and insightful understanding of “what is” today. Leaders are also honest and they don’t inflate benefits or sweep problems under the rug. It should be clear that leadership in a learning organisation is not a quality of only the CEO but distributed across the organisation.

According to Senge (1990, 2008), under such conditions, we are more likely to expose our ways of thinking and give up deeply held views. Also, experimentation is fostered as people will know what they want but not how to get there, so they try something that they think will move them forwards. With shared vision, everyone knows there is no guarantee, but they are committed anyway. When data comes in, especially when there is failure, they can then learn from it.

Resonating with Senge (2008), Stopford (2001) and Montgomery (2008), Bryson (2011) also makes clear that “visioning” can play a role at various stages of the process, e.g. in issue identification as well as implementation. It is really about harnessing the power of multiple perspectives to support re-norming.

In flexible organisations, frontline teams are well-versed in the mechanics of experimentation. They already have the habit of doing this to deal, at their level, with the issues that are generated by the everchanging environment. For example, the famous Plan/Study/Check/Act cycle promoted by quality guru Edward Deming, is essentially a model of experimentation. Also, such teams are intrinsically motivated by a sense of purpose, defined from the user’s perspective. Whenever they detect they are not fulfilling this purpose, a creative tension arises. In other terms, these teams are used to being visionary. When an idea for living even more up to their purpose (a vision) arises from outside the team, for example triggered by a future gazing exercise, they are also prone to making sense of it by trying it on a small scale, rather than debate if theoretically forever. Only when such an idea can be demonstrated to work in practice, is it integrated as the new way of doing things.

\textsuperscript{46} The necessary revolution, p. 45-52.
In a bureaucratic organization, visions and dreams have a hard time turning into reality. There, according to Senge (1990, 2008), “shared vision” refers mostly to one person’s vision being imposed on others by means of the “vision statement”. This is usually a “one shot vision” where management, after crafting the statement, assumes the visionary work is done. It does not build on personal visions. These are ignored as there is no room for inquiring and testing at every level. Indeed, for this to happen, there must be space for workers to deviate from the established ways and experiment. Yet, the maximum specification of activities via top down management systems that characterizes bureaucracies works against such experimentation. In addition, most staff will not have been able to develop the skills needed for such experimentation.

c. Conclusions

In the table below we summarise how bureaucracies and flexible organisations gain insights that help them to identify and deal with issues.

<table>
<thead>
<tr>
<th>Table 4: sources of insights versus organisational paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bureaucracy</strong></td>
</tr>
<tr>
<td>Operating camp</td>
</tr>
<tr>
<td>Top down perspective (managerial reality defines all reality) enforced by maximum specification (management by procedures, targets, ICT etc.). Most of the regulating cycle (except observation) is situated at higher levels. This leads to an organization where most people look up, not outside (neither towards the current nor future environment). Recognising issues then has to be the job of top management but they are too far away from the outside world and receive info only through a very limited set of lenses. Issues then become recognized too late, namely when they are turning into (hard to ignore) crisis. In addition, insights how to tackle them are also scarce.</td>
</tr>
<tr>
<td>Future gazing camp</td>
</tr>
<tr>
<td>As closed systems, bureaucracies are used to thinking of the outside world as relatively predictable. Future gazing exercises are therefore not taking very serious.</td>
</tr>
<tr>
<td>Behaviour and culture camp</td>
</tr>
</tbody>
</table>
Clearly, **bureaucracies can make limited use of the various sources of insights and this explains why they find it so difficult to engage in re-norming / double loop learning**. Of course, if the environment would not be VUCA, then bureaucracies would be highly efficient. There would be little need for ongoing re-norming. But, as it seems VUCA is the new normal, flexible organisations provide the better option.

The table below summarises how the three sources of insights provide different perspectives that relate to this VUCA world. Within VUCA, volatile and uncertain can be reduced to the idea of (un)predictability, while complex and ambiguous relate to the variety (e.g. interacting people that have different needs, ambitions, endowments, etc.) that exists in the environment.

As discussed in Wauters (2017), organisations (as systems of interconnected activities) need to be able to absorb the variety (of demands, challenges, ...) coming from the environment. If the organisation is too constrained in its capacity to respond, as in a bureaucracy, outcomes will suffer. However, while an organisation may be able to absorb today’s variety, such as a flexible organization does, it may still be overwhelmed by tomorrow’s. Hence the need to consider future variety explicitly.

Variety can be usefully split up in various types, as proposed by Seddon (200547):

- **Frequent and predictable**: demands on the organization that occurs frequently and that stay within certain bounds. This is to be absorbed as much as possible on the frontline of the organization;
- **Infrequent but still predictable**: demands that may not happen very often, but we have encountered them before and have developed a response. As occurrence is rare, the frontline draws on relatively scarce expertise inside the organization to deal with them;
- **Unpredictable**: relates to the future which is inherently uncertain. The idea here is to develop responses before they are needed.

<table>
<thead>
<tr>
<th>Camp</th>
<th>Key source of insights</th>
<th>VUCA focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating</td>
<td>User perspectives, accommodating others</td>
<td>Variety in today’s environment: frequent and infrequent but predictable</td>
</tr>
<tr>
<td>Future gazing</td>
<td>Perspectives from different futures</td>
<td>Variety in tomorrow’s environment: unpredictable</td>
</tr>
<tr>
<td>Behaviour and culture</td>
<td>Perspectives from different stakeholders</td>
<td>Co-creating tomorrow’s absorption capacity through today</td>
</tr>
</tbody>
</table>

---

47 Freedom from command and control, Mayfield Press, 2nd edition
As made clear in the table above, when utilized to its fullest potential, as done in a flexible organisation, the **operating camp can deal with the demands placed on it today**, with a focus on users of its services, while also accommodating to some extent demands from other stakeholders. As long as user (or other) demands do not evolve too rapidly, there is no problem as the organization will adapt. But if evolution would be too fast, the organization would risk being overwhelmed. Hence the need for “future gazing”. As the future is inherently uncertain, the exploration of multiple futures enables organisations to be as prepared as possible.

Finally, it should also be clear that **all camps mutually reinforce each other**. On the one hand, the concept of a **learning organization can be seen as foundational** for both the operating and future gazing camps. A perspective shift (to users or the future) with ensuing insights is not sufficient for organisations to perform well today and tomorrow. At best this will trigger personal visions of change (at any level of the organisation). **Personal visions still need to become shared**, at least to the degree that they form a coherent whole. The process via which this happens is a matter of leadership (in terms of co-creating shared vision) and experimentation (in terms of coming to understand how to move forward by acting and then reflecting on results to inform further action). On the other hand, the practices associated with the **operating and future gazing camp provide insights that can become part of the co-creation of shared vision** and, hence, inform action. This corresponds with the suggestions made by Courtney (2001) above that a **learning organization is needed to deal with a VUCA world**.

Now we are ready to further develop our understanding of the two divergent views of strategy and strategic management that we derived from the literature in chapter 1 and understand how the left hand side of the table below is more likely to be adopted by a flexible organization, while the right hand side comes more naturally to a bureaucratic one.

**Table 6: understanding of the nature of strategic management**

<table>
<thead>
<tr>
<th></th>
<th>More flexible</th>
<th>Key difference</th>
<th>More bureaucratic</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>... a transformation process, through which a coherent story regarding (system) innovation and deep change over time of a strategic logic (what value, for whom, in what way), with implications beyond the single organisation (at ecosystem level), is turned into reality</td>
<td>Redefining performance to meet new challenges versus improving performance of ongoing programs and Ecosystem (network) versus single organisation</td>
<td>... a process of drawing up (as well as keeping current) organisational plans that drive and coordinate other processes for incremental improvement</td>
</tr>
<tr>
<td>4</td>
<td>...securing broad commitment and cross-divisional as well as inter-organisational collaboration and ensuing trust at all levels</td>
<td>Co-creating shared vision versus top-down control oriented</td>
<td>... focused on vertical alignment of objectives and enhanced control</td>
</tr>
<tr>
<td>5</td>
<td>... strategic thinking, a creative and intuitive process, which involves challenging</td>
<td>Double loop learning versus single loop</td>
<td>... analysis of hard data and ensuing programming, focussing</td>
</tr>
<tr>
<td>Assumptions and (informal) learning from all possible sources, synthesising this into an integrated, not too detailed, perspective on the direction the entity should pursue</td>
<td>and Perspective versus programming</td>
<td>on the further elaboration of established visions and strategies</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>...an ongoing process of timely issue identification and resolution, at various levels, driven by unfolding events and emerging information, made visible to all as a rolling agenda into which new issues can be inserted at any time</td>
<td>Continuous versus annual and Iterative versus linear</td>
<td>...a tightly scheduled, formal, annual process of planning and reviewing of lower level organisational units by the higher level, with the planning period being tightly followed by across the board implementation during the rest of the year</td>
</tr>
<tr>
<td>7</td>
<td>...engaging those people (especially the young, newcomers and those at the periphery) who are deeply involved with the specific issues at hand and who, through focused experimentation test options in practice and gain new insights, that senior executives, as closely following sponsors, can share, while at the same time ensuring unity of purpose (to avoid fragmented resources or conflicting agendas rather)</td>
<td>Broadly engaging versus elitist</td>
<td>...senior executives bringing in external consultants or using a small group of internal planners to support them</td>
</tr>
<tr>
<td>8</td>
<td>...asking the right questions, framing them as strategic, moving back and forth between inquiry (asking feedback) and advocacy (proposing), assuming and seeking constructive conflict as the norm</td>
<td>Discovery versus closure</td>
<td>...providing the right answer to questions labelled as strategic</td>
</tr>
<tr>
<td>9</td>
<td>...working from the future back, preparing minds that it will be very different from today</td>
<td>Uncertainty versus predictability</td>
<td>...working on the basis of a high quality, elaborate analysis of the present situation</td>
</tr>
<tr>
<td>10</td>
<td>...intensely and frequently discussing real time information relating to the internal environment (with a time dimension e.g. rates,</td>
<td>Looking forward versus looking back</td>
<td>...reporting on (accounting) metrics (indicators) that provide a view of the past</td>
</tr>
<tr>
<td>durations, speed... and a focus on innovation) as well as the external (regarding recent developments and even gossip)</td>
<td>performance of the ongoing business</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. Strategic planning and management in the public sector?

a. Public versus private sector characteristics

i. Starting from value not competition

One departure point to start the discussion is the concept of “public value” as elaborated by Moore (2003). He stated that ultimately “public” value is linked to the social mission of an organization (e.g. bringing relief to the distressed, alter conditions, producing a public work to be enjoyed by all), where clients may receive services, be satisfied with them, change their lives and achieve the social outcomes they want (even if they do not pay for them). In addition, it includes public goods, equity, legal frameworks underpinning law, order and markets... For the private sector, value simply refers to the value of products and services as such for individuals, reflected in the price they are willing to pay. For the public sector, measuring public value is not so easy.

Next to achieving this public value, there are however also various sources of legitimacy and support or “accounts” that need to be satisfied by public organisations. Not least because the public sector, unlike the private, typically is funded by budget allocations (they do not charge), rather than sales. Hence third party funders’ (charities, government,...) expectations and demands also matter (e.g. drug rehabilitation may be funded to reduce crime in a community). As the various sources of funding grow larger, more diverse, more loyal, more generous, the capacity to achieve the mission is increasing. This would also reflect the increase of value to the donor (separate from the public value) in terms of worthwhile giving. It should however not be assumed that merely producing something of value will bring financial support. Next to these third party funders there are other “accounts” such as paying customers, volunteers and providers of material (in kind) resources, government chartering organisations, accreditors, rating agencies, media, public, civil society,... who deliver a flow of goodwill, legitimacy, enthusiasm and help to get the other kinds of support. In the private sector however, the market is supposed to be all that matters.

Finally, a third element of interest to Moore (2003) is “operational capacity”. This goes beyond “organisational” capacity as it also entails partners, collaborators, co-producers. These can receive resources from the organisation to help these “partners” deliver output, technical assistance, disseminate ideas, develop a political environment that mobilises other organisations, joint planning, ... It also reflects the idea that non-private organisations are not supposed to focus on competing with each other but should rather collaborate and share their technology and expertise with others (“leveraging” efforts of others who share their goals or have useful capacities). The private sector is supposed to rely much more on its own organizational capacity.

48 The public value scorecard, Working paper 18, Kennedy School of Government, Harvard University
The figure below developed by Desmidt and Heene (2005, p. 57-8) shows how the private and public sector logics differ.

**Figure 13: basic processes of public versus private sector organisations**

---

Mintzberg (1996) distinguishes between the private and public sector by discussing the differences between what he refers to as customers, citizens, subjects or clients and the role of public, private and not-for-profit sectors in dealing with them.

“Customers”:

- here goods and services are provided, that are accessed through market mechanisms in competition with the private sector;
- very little of what the state does, in a free market economy, falls within this category;

---

49 Strategie en organisatie van publieke organisaties, Lannoo Campus.
50 “Managing government, governing management” in Harvard Business Review May-June
• this tends to be the domain of the private sector or cooperatives that try to sell as much as possible, maintaining an arm's length relationship controlled by the forces of supply and demand.

“Clients”:

• in this case, professional services and facilities such as health care, education, public transport are provided;
• the organisations providing this type of services should not be in the business of inciting to consume as much as possible of them beyond what is necessary from a societal perspective;
• nor is it a good idea to provide access through market mechanisms (price) as these services should be accessible up to a minimum level to everyone, regardless of the financial resources these “clients” could muster;
• these services may be funded in large part by the state, to ensure equity, but their ownership and provision can be the domain of non-profit organisations or cooperatives (as the state and the private sector have demonstrated that they are not particularly effective at this, due to hierarchies being too crude and markets too crass to deliver the nuanced requirements of professional services).

“Citizens”:

• this refers to the provision of physical (such as roads and ports), social (such as museums and parks), mediative (such as civil courts) and economic infrastructure (e.g. monetary policy) as well as the infrastructure of democracy (e.g. election machinery) and government itself (e.g. embassies);
• of course, the state may own the infrastructure, but private or non-profit organisations can be used to finance, design, build, operate and maintain it, in return for future revenue streams (e.g. through a concession or another form of public private partnership as is frequently the case with roads).

“Subjects”:

• here the job of regulating and controlling (e.g. to ensure societal actors act appropriately or adopt a proper attitude) as performed by the police, military, prisons, judiciary and regulatory agencies is situated;
• although making the laws and rules clearly is the role of the legislative branch of government, supported by their relevant government departments, carrying out enforcement duties could be outsourced to private and non-profit actors;
• however, as with the activities under “citizen”, the state should remain the “owner”.

Clearly, “customers” fit with the private sector logic as depicted in the figure above. What is discussed under clients, citizens and subjects all belongs to the concept of public value as depicted in the public logic. The contribution of Mintzberg (1996) can also be linked to the idea of operational capacity in the public sphere where he makes clear that activities relating to citizens -with many trade-offs in terms of conflicting interests- and subjects -meaning necessary use of authority- may be operated by private or non-profit actors but that ownership should be retained by the state. Client activities may be best suited to be owned and operated by not for profit or collective organisations
but funded by the state. Hence, these organisations act as “partners” to the state. Therefore, Mintzberg (1996) has a great deal in common with Moore (2003), except that he does not elaborate on the nature of the authorizing environment.

Talbot (2011)\(^5\) does recognize the attempt to merge ideas about efficiency and effectiveness in the provision of public services with notions of democratic legitimacy and trust. As the concept of public value celebrates the contribution the public sector can make to ‘good society’ rather than being represented as a necessary evil due to (the need to correct) market failures, he sees it as befitting the new “networked governance” paradigm and as offering an alternative to the narrow, economistic ideas that underpinned the New Public Management ideas of the 90’s. However, he also sees it as more broadly applicable to reforming traditional hierarchical forms of public organization.

Talbot (2011) puts forward that ultimately, people decide whether something is valuable or not. This is no different in the private sector where subjective views about what constitutes values are however dressed up in apparently objective accounting or asset valuations. However, how these subjective, often contradictory, preferences are combined in practice is different: in the public sphere, this happens through some form of representative and sometimes participatory democracy - necessary to establish trust and legitimacy of the broader population, so they value the ensuing action even if it was not their preference- as well as through direct participation by users. As preferences change over time, so public action needs to adapt and seek renewed legitimacy and trust.

Talbot (2011) however also discusses the criticism that the concept of public value assumes that public managers are imbued with the “public interest” and that this ignores that they may be self-interested and/or may have views about this public interest that are at odds with that of elected representatives. He stresses that humans are both self-interested and altruistic. He then introduces the concept of “procedural fairness” that states that humans value participation in a fair and transparent process, whatever the outcome. This is put forward as synthesizing to some extent self-interest and public interest via the mechanisms of representative democracy and, to an even greater extent, participatory systems, as such fairness produces satisfaction even when individuals do not get there self-interest or public interest satisfied.

Public value to Talbot (2011) then consists in balancing:

- Self-interest: providing good quality and efficient services at an optimum price for both the taxpayer/citizen and the customer (or client in Mintzberg’s terms);
- Public interest: stresses providing taxes and legitimacy to actions that achieve social outcomes and improve welfare for all citizens, implying redistributnal content;
- Procedural interest: emphasizes equity, fairness and due process in the way in which people participate in shaping public decisions and individual services.

Balance is important as all of these interests can be in conflict (e.g. justice systems can grind to a halt due to procedure which causes distress to victims and accused alike, minorities often fail to satisfy self-interest while achieving procedural interest, demand for better educational outcomes can conflict with self-interest in lower taxes,...). This balance will likely change over time, services and

---

\(^5\) “Paradoxes and prospects of ‘public value’” in Public money and management, 31:1, p. 27-34
between cultures (e.g. in the US public interest is often expressed in non-state forms via voluntary contributions, whereas in Europe it is channeled via taxes and spending).

Kelly, Mulgan and Muers (2002) also state that public value relates to various elements which reflect those already put forward above by Talbot (2011):

- Value created directly by services (e.g. transportation). Here user satisfactions is key (shaped by customer service, information, choice, advocacy by others). This reflects Talbot’s self-interest;
- Value of outcomes: this is, for instance, the value of safety from crime, which goes beyond just having quality police services. Government alone cannot deliver these outcomes. Social norms of behavior are key and acting on these norms is a powerful tool. This reflects Talbot’s public interest;
- Value of fairness in service provision: this denotes the value associated with appropriate access and can in many cases be linked to legislation (e.g. basic education for all). This also reflects Talbot’s public interest;
- Value of trust and legitimacy: next to general levels of (propensity to) trust, this is shaped by the effectiveness with which it manages the economy and services as well as the way politicians and institutions behave. If the public sector is caught lying or engaged in fraud and corruption, this diminishes its value in the eyes of the citizen, regardless of the level and fairness of service provision or outcomes. This reflects procedural interest.

Key levers to enhance public value are managing the culture/ethos of the public organizations (ensuring that their values are aligned to public value), managing user engagement and consultation, managing behavioural change and finally managing fair treatment and due process.

Kelly, Mulgan and Muers (2002), like Talbot (2011) also recognize that there are trade-offs between these elements (e.g. boosting uniformed police on the street may increase satisfaction with the service but does little to reduce crime). They also point out that public “added” value is what really matters. This means the benefits from public action must outweigh the resources and power that citizens decide to give to government. If citizens are not willing to give up something (monetarily e.g. via taxes or charges, giving time or other personal resources, granting coercive power, disclosing private information,...) then the action clearly does not provide enough value.

Like Talbot (2011), these authors also put forward that the idea of public value entails recognition that citizens may want their government to take action, even when the traditional rationale of market failure does not apply. They also discuss the idea of legitimacy, where leadership refers to

---


53 According to Desmidt and Heene (2005) traditional views of the role of government limit it to three tasks: 1) Allocative: influence use of scarce resources by private sector 2) Redistribution of wealth especially via taxation and social security 3)Stabilise economy: limit and smoothe shocks. The reason why government needs to do this is because markets do not function perfectly (e.g. transaction costs, assymetry of information, economies of scale and natural / artificial limits to entry limit competition) there are externalities from markets that are not dealt with by markets (producer does not “own” the problems) and, finally, there is no market for public goods (non-exclusive, indivisible, non-rival). These elements are referred to jointly as “market failure”.
shaping as well as accommodating the aforementioned public preferences. The former requires tapping into and influencing patterns of preference as they emerge.

In line with this, based on Kelly, Mulgan and Muers (2002), an extra notion should be added: **government is different from the private sector as it has a stewardship role in relation to future generations.** Companies are accountable only to the current shareholders (even if shareholder value reflects future value).

### ii. Other presumed differences

To conclude the discussion on differences between the public and private sector, this report draws on Boyne (2002)\(^5^4\) to provide a comprehensive overview. In the first two, externally oriented, clusters, we can find most elements of the above discussions on public value. The last two, more internally focused cluster, complete the picture.

A first set of theoretical differences relate to the external environment of organizations:

1. have to deal with the complexity due to having a **larger variety of stakeholders with conflicting requirements** (eg tax payers versus service recipients). This is clearly already reflected in Moore (2003), Talbot (2011) as well as Mintzberg (1996);
2. **be less able to ignore external constituents** (politicians, citizens, recipients, …) demands for direct input into the policy formulation and implementation process and hence be more permeable. This is reflected in the focus of Talbot (2011) regarding procedural fairness;
3. **to have to engage with an instable political environment** with frequent changes in policy as governments and political alliances come and go and that is focused on artificial (short term) time horizons for results (to help get re-elected). Ring and Perry (1985)\(^5^5\) also mention how frequent political appointments may disrupt implementation of strategic plans;
4. **to have few rivals and to be expected to focus on collaboration with others**, making it meaningless to think about “competitive stance” and “competing for customers” which would be seen as an undesirable duplication of services. Also this element is recognized by Moore (2003), Mintzberg (1996) and Talbot (2011). According to Ring and Perry (1985) this however then leads to lower allocative efficiency (due to absence of competitive pressure).

A second set of differences (also broadly recognized in Moore, 2003 as well as Talbot, 2011) relate to the **goals of organisations.** In the case of public organisations, these are assumed to be:

5. **highly distinctive like equity and accountability** as they derive from common ownership of the public service organization. This can also extend into future generations as remarked above by Kelly et al (2002);
6. **multiple and conflicting**, reflecting the larger variety stakeholders and necessitating a greater ability to balance and reconcile them;

\(^5^4\) “Public and private management: what’s the difference?” in Journal of management studies 39:1
\(^5^5\) “Strategic management in public and private organisations” in Academy of Management Review, 10:2: 267-286
7. more vague, which derives from the necessities of political negotiation processes where support needs to be gained from diverse groups (hence ambiguity is an asset).

A third set of differences relates to the internal characteristics of organisations where public ones are thought to:

8. have to deal with more bureaucracy in terms of formal procedures for decision-making, with a higher degree of risk averseness and lower flexibility, due to the requirements of a plurality of (external) monitoring bodies and demands of accountability. These derive themselves from the often coercive nature of many government actions (in terms of being forced to participate in use and/or financing of services), seen as requiring more checks and balances. Indeed, in connection to this, Ring and Perry (1985) mention that top managers are more publicly exposed than their private sector counterparts. Likewise, Nutt and Backoff (1993) point out that public organisations cannot easily keep their ideas and developmental activities private;

9. involve more red tape (unnecessary and counter-productive obsession with rules and processes instead of outcomes) and ensuing delays and subsequent irritation as a side effect of the above mentioned bureaucracy;

10. allow less autonomy for managers to direct staff lower down as they see fit (e.g. due to inflexible rules on staff hiring, promotion, firing).

A final set of differences concerns the attitudes and aspirations of staff, both towards work and life in general. Staff in the public sector is held to be:

11. less materialistic and less likely to be motivated by financial rewards;

12. driven by a stronger desire to serve the public interest and promote public welfare rather than meet demands of individual “customers”; this is underpinned by a sense of vocation, reinforced by strong self-regulating professions (that also exist in the private sector) with their own ethical codes of practice (e.g. teachers, nurses,...);

13. less likely to experience a sense of personal significance as it is more difficult to observe a link between their contributions and the success of their organisation due to the sheer size of them, the pluralistic composition of policy implementation networks and the lack of clear cut performance indicators. Hence it is also more difficult to reward performance.

However, the table below from Boyne (2002) shows the existing evidence for these assertions, based on 34 studies in the period of 1960-99 (mostly 1970s and early 80s), predominantly from the USA. X’s mean that there is no evidence. The numbers in the table refer to the amount of empirical studies that provide moderate to strong support for a lack of public versus private sector distinctiveness (support score <= 50%) or on the contrary, do support moderate to strong distinctiveness (>50%). Finally, there are also studies that support no distinctiveness at all (score 0). Boyne (2002) warns that more empirical research that employs better methods is required (p. 116) before far reaching conclusions are drawn. Nevertheless, it is interesting to reflect on the findings.
Table 7: empirical support for distinctiveness of public sector organisations

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>0</th>
<th>≤50%</th>
<th>&gt;50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H1 more complexity</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>H2 more permeable</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>H3 less stability</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>H4 weaker competition</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Goals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H5 distinctiveness</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>H6 larger number</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>H7 more vague</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Structures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H8 more bureaucratic</td>
<td>2</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>H9 more red tape</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>H10 lower managerial autonomy</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Values</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H11 less materialistic</td>
<td>2</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>H12 stronger public interest motives</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>H13 weaker organisational commitment</td>
<td>1</td>
<td>0</td>
<td>3</td>
</tr>
</tbody>
</table>

Notes:
1. Figures show number of studies with support scores of zero, less than or equal to 50%, or more than 50%.
2. X = no tests of this hypothesis.

Source: Boyne (2002)

One hypothesis seems to be strongly supported, namely the bureaucratic nature of the public sector. Nutt and Backoff (1993) (p. 316) make the importance of this clear when they state that for the public sector “a way to identify opportunities in a turbulent sea of threats is needed” as opposed to the private sector where the need is rather “to recognise threats in an ocean of opportunities”. This derives from an environment where organisations are supposed to do as little as possible, spend as little as possible, make wise use of tax money, avoid acts that deprive firms of profit, be fully transparent about what one wants to do and why,… “Pure opportunities... arise from new social concerns and produce honeymoon periods, but...short lived. Typically, a strategy...incremental movement that balances opportunities and threats” (Nutt and Backoff, 1993, p. 321). For these authors, opportunities in the public sector typically derive from (and are limited to) enabling legislation (allowing to install a service and secure funding) or tacit authority to deal important with societal concerns that are broader than one’s mandate e.g. schools tackling domestic child abuse.

Likewise, Boyne and Walker (2010 ) state that the authorizing environment implies more limited strategic discretion for public organisations (even though they are quite often monopolies): they cannot just quit or switch geographical locations or move out of old (because they are not easy to serve) and into new markets or vary the quality of their services to reach more/less people. According to them they also face limited discretion by political, legal and regulatory constraints e.g. they may be “required” to contract out, be subject to regulatory instruments such as performance targets, planning systems, inspection/audit, budgetary controls, annual reporting, etc... placing limits on strategic decisions and entrepreneurial behavior.

Two other hypothesis also have some support: that staff in the public sector is less likely to be materialistic and that they are less likely to experience a sense of personal significance. This would
point to the urgency in finding ways to work on increasing engagement. In this respect, it is useful to note the link between bureaucracy and lack of engagement, where addressing the former may also improve the latter. Indeed, there is evidence from the private sector (Morieux and Tollman, 2014) that the problem of engagement is a problem primarily of bureaucracy as the Boston Consulting Group “index of complicatedness,” based on surveys of more than 100 U.S. and European listed companies, shows that over 15 years, the amount of procedures, vertical layers, interface structures, coordination bodies, and decision approvals (all signs of the bureaucratic regime trying to maintain itself) needed in each of those firms has increased by anywhere from 50% to 350%. Over a longer time horizon, complicatedness increased by 6.7% a year, on average, over the past five decades. Hence, this is a relatively recent phenomenon also in the private sector. In the 20% of organizations that are the most complicated, managers spend 40% of their time writing reports and 30% to 60% of it in coordination meetings. That doesn’t leave much time for them to work with their teams. As a result, employees are often misdirected and expend a lot of effort in vain. Employees of these organizations are three times as likely to be disengaged as employees of the rest of the group. Hence, addressing bureaucracy may well address engagement. The lower degree of materialism of its staff then becomes a strength as these staff are more prone to intrinsic rather than (unaffordable) extrinsic motivation (e.g. with financial incentives).

To conclude, it should be noted that the elements in the table above that relate to the idea of public value (the clusters regarding environment and goals) do not support distinctiveness of the public relative to the private sector. This is primarily due to lack of research on all but two items. However, it has been recognized by some authors (Chandler, 1991) that many companies do not strive for maximum profit but for continuity. In that sense they edge closer to the public sector. As to permeability, the lack of support for this being distinctive for the public sector does not have to surprise. Many private organisations are also scrutinised heavily by public opinion, hence the rise of corporate governance and sustainable entrepreneurship (Chandler, 1991).

b. Three sources of insights for the public sector

We now turn to authors who have addressed the nature of strategic management specifically for the public sector.

Poister and Streib (1999) out forward that strategic management requires a strategic management group (SMG) to provide leadership to the process, consisting of the CEO, top-line managers and key executive staff members. These then execute following tasks:

- Meet regularly to discuss strategies, monitor progress, evaluate effectiveness, maintain focus on the strategic agendas;

---

57 For a full elaboration of the different types of motivation see Wauters (2013), “SMART or not: are simple management recipes useful to improve performance in a complex world? A critical reflection based on the experience of the Flemish ESF Agency.” Paper submitted for the conference on “Performance of public sector organisations: from weighing to losing weight.” at the University of Gent.
58 “Public administration and private management. Is there a difference?” in Public admin quarterly 69 (3)
• Includes identifying newly emerging issues (problems/opportunities) as they develop, modifying strategies, providing direction and control over implementation plans, developing new strategic initiatives...on an ongoing basis;
• Also involves coordination of strategic planning at various levels:
  - E.g. specific operating department’s strategies require SMG at city level to determine common results areas / objectives;
  - cross-departmental task forces (e.g. revitalising commercial centres) then specify strategies and action plans to achieve those;
  - in parallel, operating departments also specify their own specific strategies and action plans;
  - SMG reviews and approves both departmental and city wide initiatives;
• Tying funding to specific programmes, projects or actions;
• Assigning responsibility for initiatives to individuals and units;
• Tracking progress.

Poister and Streib (1999) stress that “...an agency’s strategic managers can be truly strategic in their thinking and decisions only if they really understand what is going on in their organisation and its environment” (p. 319). Hence they require ongoing monitoring of the internal and external environment. Internal monitoring happens formally via management information systems, employee surveys, etc. as well as more informal debriefings, conversations, site visits, brown bag lunches, management by walking around, etc. External monitoring happens via published reports, professional associations, customer feedback, advisory committees and interactions with a variety of external stakeholders.

Poister and Streib’s (1999) description does not conflict with what was set out in chapter 1. However, it considers strategic management on its own without reflecting on its relation to other, related concepts. This is where Nutt and Backoff (1993) make an important contribution by putting forward a framework of three interrelated elements: TQM, Strategic Management and Strategic Leadership.

For Nutt and Backoff (1993) strategic “management” focuses more on process and idea development than on implementation. Strategic leadership in turn focuses on principles for leaders “guiding, with a motive or purpose, to make something go” (p. 324) and hence rather on idea implementation than on idea development (engaging people in pursuing a shared vision, dealing with ownership via building relations as action is taken to realise the strategy). Finally, TQM (total quality management) is understood to embody a focus on empowering others via self-managed groups (a synonym for self-steered groups).

Nutt and Backoff (1993), based on an extensive overview of strategic leadership theory, elaborate strategic leadership as entailing the following activities:

• Co-creating strategy:
  - Win over stakeholders;
  - Get them to a neutral position to stay out of sensitive negotiations;
  - However, not something the top manager can easily do on his own: best to work with “exemplary followers” who will do this influencing for him with the leader acting as their facilitator;
• **Framing the vision for public consumption:**
  - If influential insiders feel threatened, they can mobilise political influence and snuff out any good idea before it can be shaped to fit the situation;
  - Hence fears must be allayed, as well as direction provided;
  - Done by telling the same message but considering preferences and values of different stakeholders, stressing what is of interest to them:
    - Creating a bigger space with same elements that appeal to various stakeholders in different ways (e.g. historical plays in historical buildings can be about conservation + theatre);
    - Switching filters: casting light on a different aspect or on the context of the strategy;

• **Blurring leader vs follower distinctions**, empowering exemplary followers by:
  - Giving them access to information which can then use to liaise with key stakeholders and influence them in the desired direction;
  - This build trusts and encourages reciprocity throughout the organisation;

• **Push the action forward:**
  - Help others to become more productive, get needed resources and remove internal barriers that limit the exemplary follower’s discretion;
  - Give them positive feed-back to reduce fear of failure.

This description is very similar that what was discussed regarding visionary leadership in the section on the behaviour and culture camp.

Nutt and Backoff (1993) then proceed to discuss the linkage between strategic leadership and strategic management. Interestingly, the first stage of strategic leadership involves delegation to self-managed (steered) groups (SMGs). The table below shows on the left hand side the 6 stages of strategic management as seen by Nutt and Backoff (1993). The final stage is the implementation plan. In this sense, they equate strategic management with what would be considered strategic planning by authors such as Bryson (2011). Nutt and Backoff (1993) broadly follow Bryson (2011) (see also annex) up until step 8 with steps 9 and 10 missing. The table also shows that, to Nutt and Backoff (1993), most of the stages of strategic management can form part of the co-creation stage of strategic leadership, while the other stages of strategic leadership are important within the last stage of strategic management, namely fashioning implementation plans. Interestingly, the first stage of strategic leadership involves delegation to self-managed (steered) groups (SMGs).
Nutt and Backoff (1993) provide few details on the nature of TQM. The key idea for them is that every transaction is analysed to identify the customer and to ensure that their needs were met. The key mechanism to support this, is the self-managed group (SMG) which has authority to improve things. Empowerment is seen as a powerful motivator.

Contemporary academics such as Vinzant and Vinzant (1996[^59]) have taken a similar view of TQM (in relation to strategic management). They state that TQM is “…most closely associated with the teachings of W. Edwards Deming…” (p. 206) and elaborate that:

- the overall purpose of TQM is continuous, customer centred quality improvement;
- higher quality of service/products;
- quicker and less variable response;
- greater flexibility;
- less cost;
- in line with this, instrumentally, TQM relies on statistical quality control, quality circles, supplier partnerships,…

Based on this description, **TQM can be equated with the concept of self-steered teams, based on modern socio-technical system theory**, as proposed in an earlier chapter of this report. Two of the cases describing flexible organizational arrangements in Wauters (2017) are indeed cases of “lean thinking” which is derived from the ideas of Deming.

[^59]: “Strategic management and TQM: challenges and choices” in Public Administration Quarterly, Summer, 20;2.
Referring to Figure 14, some clarifications can now be made as to how the three elements fundamentally support each other:

- The relation **between TQM and strategic management** consists of signaling when the “system” that sets the conditions for performance for frontline service providers needs to be modified to allow for further improvements. According to Seddon (2005, p. 25-48), systems conditions such as roles and measures reflect the implicit thinking of managers who created them. Affecting these conditions is clearly a “strategic” issue - within a longer term horizon - as defined earlier by Bryson (2011) - and can only be tackled adequately if the senior management that has influence over these conditions becomes involved. Shorter term operational issues, on the other hand, can be dealt with adequately by self-governed teams on a shorter term basis and hence do not enter into strategic management;

- However, the previous point implies a specific **relation between strategic leadership and TQM**. Strategic leadership should allow frontline teams independent action on operational issues, while these teams at the same time are aware of a shared vision concerning the fundamental purpose of the organisation which enables them to identify certain strategic issues regarding existing systems conditions. That senior management does not concern itself any longer with operational issues was already put forward as a hallmark of phase 4 strategic management by Gluck et al (1980);
Finally, the relation between **strategic leadership and strategic management** concerns the encouragement of creativity at all levels of an organisation as well as coordinating various parts of the organisation. In return, all levels co-create the vision and strategy, making it “shared” in the process. Bryson (2011) stated that “strategic planning is not a substitute for leadership” and that “…strategic planning is not a substitute for strategic thinking, acting and learning. Only caring and committed people can do that and almost always via deliberative processes. Unfortunately, …strategic planning can drive out precisely...was supposed to promote (p.20).

Also, Vinzant and Vinzant (1996) considered that **TQM and strategic management are complementary**. The table below show differences and similarities (with differences highlighted in red). Interestingly, they show transformational leadership as part of both approaches. Hence they are in broad agreement with Nutt and Backoff (1993) in this respect.

**Table 9: differences and similarities between TQM and strategic management**

<table>
<thead>
<tr>
<th>View of organisation</th>
<th>TQM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open systems interacting with environment with focus on thinking ahead</td>
<td>Id</td>
</tr>
<tr>
<td>Organisations can change</td>
<td>Id</td>
</tr>
<tr>
<td>Strategic planning (focus on strategy rather than operations) as backbone, incl. sense of mission and responding to threats and opportunities</td>
<td>Customer (needs) focus and continuous quality improvement as drivers</td>
</tr>
<tr>
<td>Time orientation</td>
<td></td>
</tr>
<tr>
<td>Future oriented</td>
<td>Emphasis on present</td>
</tr>
<tr>
<td>Long term perspective</td>
<td>Current customer demands</td>
</tr>
<tr>
<td>Links strategic initiatives to (future) operations and provides guidance, direction, boundaries for all aspects of operations</td>
<td>Long term (sustainable) improvement</td>
</tr>
<tr>
<td>Requires patience/long term commitment to implement system</td>
<td>Id.</td>
</tr>
</tbody>
</table>
To conclude, we can now relate Nutt and Backoff (1993), supported by Vinzant and Vinzant (1996), to Campbell and Alexander’s (1999) three “camps” of strategic management as visualized in Figure 15.

**Figure 15: three interpretations of strategic management**

The operating camp pertains to TQM and its relation with strategic management. By taking the user perspective, it enables frontline teams, occasionally with the help of higher level management, to identify and respond to variety in today's environment. Indeed, as depicted in Table 9, TQM stands...
strong in its focus on present customer needs and continuous sustainable improvement. The future gazing camp concerns itself with the relation between strategic management and TQM in a different way. By taking up the perspective of divergent futures and identifying where a risk lies of the absorptive capacity of frontline teams in being overwhelmed, it initiates work on making the system ready for unpredictable future variation. Indeed, as depicted in Table 9, the strengths of strategic management relative to TQM are its orientation to the future and the longer term, its thinking ahead. Finally, the behavior and culture camp is concerned with the relation to both TQM and strategic management. It is essentially a supportive element as it is about creating the conditions for TQM and strategic management to function and use a variety of insights.

However, while strategic leadership appears to be a sine qua none, Vinzant and Vinzant (1996) state that “simultaneous implementation of a comprehensive strategic management and TQM system, as separable initiatives, would not be recommended.” (p. 216). Hence, the choice presents itself which should come first. From Nutt and Backoff (1993) we already learned that the first stage of strategic leadership should involve delegation to self-managed groups, which represents a choice for a flexible organizational paradigm. Hence, to enable Nutt and Backoff’s (1993) self-reinforcing triangle to make the best possible use of the three sources of insight, the advice is to choose first to convert the organization from a bureaucratic to a flexible organization paradigm (if this has not happened before). This fits with the analysis made earlier that strategic management under a bureaucratic regime is not very suited to deal with the VUCA world.

The advice of Nutt and Backoff (1993) should not come as a surprise. Since we already established that the main distinguishing factor of the public sector versus the private consisted in a greater degree of bureaucracy, then it becomes clear that strategic management cannot live up to its potential without addressing the bureaucratic nature of the public sector first. Hence, making a paradigm shift from a bureaucratic regime to a flexible one is a precondition.

Poister (2010, p. 248) indeed pointed out that in most cases, “the initial creative sparks that eventually led to substantial changes rarely originated in formal strategic planning efforts. Rather…part of the new agendas of incoming CEO’s…or sprang from fertile imagination of the long term visionary general manager…or suggested…by others in these organisations in the course of managing their areas of responsibility and even by outsiders…” For him, the future of strategic planning revolves around two challenges:

- advancing beyond inventorying current operations and programming future activities based on extrapolations of past trends to more creative “out of the box” thinking about future directions based on assessments of own capacities as well as trends beyond the control of the organization;
- becoming more inclusive in strategizing, inviting key external stakeholders and, given that public policy is often determined and carried out in networked environments, even working collaboratively on strategies.

To Poister (2010), therefore, simply writing a plan around operational performance measures as a de facto strategy passes up the opportunity to question broader strategic issues. As Poister (2010, p. 252) states: “when there is little opportunity for working ‘inside the box’ to improve performance at...operational level, strategic planning at a higher level may be able to bring about more systemic change and remove barriers,...redesigning structure,...culture,... new service delivery
arrangements,...securing additional resources or expanding formal authority...”. Of course, if an
organization did not yet have TQM, then working on this would be highly strategic as it indeed would
bring about systemic change. Afterwards, when properly functioning, TQM would, when needed,
draw senior management attention to systemic barriers and ask for help in resolving these. In line
with the idea of TQM as consisting of self-steering teams, Poister (2010) also stresses that strategic
management should never be seen as micro-management to enforce uniformity across operating
divisions. In addition, Poister (2010, p. 253) also states “If the coming decade is as turbulent as the
one just now ending, drifting into the future on somewhat predictable tides will not be an
option...result in public agencies being buffeted by strong winds and battered on the rocks”. Clearly,
this reflects the call for future gazing as a way for strategic management to work on preparing the
operations of the future. In any case, strategic management should be nimble and selective, focusing
only on identifying and resolving the most compelling issues.

Finally, Poister (2010, p.252) connects the above discussion to a reflection on the various guises of
performance measurement: “if an agency’s principal strategies focus on producing significant
improvements in its immediate service delivery processes,...a “stats”-type system emphasizing the
quantity and quality of outputs, customer of citizen satisfaction, and outcomes, with frequent
reviews... may be useful”. This is indeed exactly what a well-functioning TQM should do with its
typical use of statistical process charts that enable it to visualise and work with variation60. However,
he also states that “an agency whose strategies focus more on longer-term change in policies or
overall direction may find that monitoring a wider range of performance data,...leading and lagging
indicators, at longer time intervals is more useful in determining if an organization is on course” as
well as “strategy concerns the implementation of new programs or other initiatives, a project
management approach may be more useful.” This is indeed what would be needed when keeping
track of the preparation of an organization for a future that would be beyond the adaptive capacities
of TQM to tackle.

c. Stewardship via transition management

One distinction between the public sector and the private that has not received much attention yet
in this report is its stewardship role in relation to future generations. There truly does not seem to
be any conceptual correlate for this task in the private sector. However, in term of approaches to
strategic management, “transition management” as it will be elaborated further below, bears
remarkable similarities to what was proposed as “shaping strategy” by Hagel, Brown and Davison
(2008) in the chapter on dealing with a VUCA world. Indeed, transition management shares with
“shaping” the idea that being adaptive to an ever changing terrain is not sufficient. Attempts to
shape the terrain are equally important.

---

60 Although it is of course possible that Poister is not aware of the difference between TQM, which is part of the
flexible organizational paradigm versus command and control systems based on targets which is part of the
bureaucratic paradigm. “Stats-type system” could refer to both.
The literature on transition management such as Loorbach (2010) 61 and Frantzeskaki and Loorbach (2012), 62 is informed by transition theory which, as stated earlier, puts forward that the combination of existing regimes, socio-technical systems and actors is highly conducive towards innovations (in terms of new solutions) that deal with problems that arise from the current ways of doing things, but that do not conflict fundamentally with this current way. While an improvement in the medium term, this kind of innovation may in the longer term still be sub-optimal because it does not lead to a sustainable functioning of society (e.g. recycling is better than incinerating and landfilling, but ultimately not sustainable as ever more waste keeps getting generated). While both with regular innovation and transitions, there is an attempt at creating options that one day can become mainstream, there are also marked differences. Transitions are longer term, more encompassing (not focusing on organisations but on societal functions) and radical (not fitting in the current societal way of doing things) than regular innovations.

In terms of time horizons for strategic decision-making, Mulgan (2009, p. 20) and (200763) proposes:

- Short term: day to day crisis and issues, which does not correspond to strategic management as discussed by Bryson (2011);
- Medium term (1-3 years): implementation of existing policies and programmes and some adaptation which corresponds mostly to Bryson’s (2011) operational issues;
- Long term (+3 years up until 50 years): new policies and strategic innovations including a generational horizon of issues like climate change where governments have to look 50 years into the future which corresponds to Bryson’s (2011) strategic issues.

Both “regular” and “systems” innovation as defined earlier are subsumed in Mulgan’s (2009) decision-making horizons under “long term new policies and strategic innovations”. However, transitions are more about the generational horizon of issues that Mulgan (2009) included under “longer term” but that was originally put separately in Mulgan (2007). Given the very different nature of transitions, it is best to deal with them explicitly, rather than bundle them together with regular innovation. The time horizon is quite different as transitions, according to Raven, van den Bosch and Weterings. (2010)64 can cover a horizon of up to 30 years.

In order to explain the difference between strategizing on the basis of transition management and strategy at the level of organisations, typical clusters of activities are set out below as described in Wauters (2015, p. 130-13365):

1. Analysis:
   a. analysis of the system:

---

62 “Governing societal transitions to sustainability”, in International journal of sustainable development, Vol. 15 nr. 1/2.
63 Mulgan, G.,2007, Ready or not? Taking innovation in the public sector seriously, NESTA.
64 “Transitions and strategic niche management: towards a competence kit for practitioners” in International Journal of Technology Management, vol. 51, Nr 1
65 Toolkit for supporting social innovation with the ESIF, ESF Agency Flanders.
i. this consists of determining geographic and/or thematic focus and identifying key elements to research further; next comes collecting data from multiple perspectives and based on different kinds of knowledge (using interviews/sessions with experts and other stakeholders, existing qualitative and quantitative data, studies, policy documents as well as information concerning how these have been interpreted by different actors and used by them), concerning a selected time period (looking back);

ii. then comes interpreting (collectively) in order to present key insights and (re)frame the real challenges (as persistent problems) faced;

iii. this provides a historical perspective (change over time) and a common information base that also stimulates systems thinking (seeing interconnections and crossing the boundaries of one’s own work/expertise), is provocative and hence a good starting point for the next phase;

b. Analysis of the actors:

   i. a long-list of actors is established based on: who can be influenced and who can influence due to having relevant information, expertise, knowledge, resources or relevant implementation instruments and who can bring a new perspective/ideas; these actors are clustered on the basis of their type of power ranging from traditional (to reinforce structures and institutions), innovative (power of ideas) to transformative (to mobilise actors and resources to move into new directions); their organizational background (government, civil society, knowledge institute, intermediaries like consultants); their interests; their competences (see below); their domain (social, economic, environmental);

   ii. this leads to a selection of actors to work with, initially specifically frontrunners in society and sustainable development whose importance lies in providing innovative ideas and impulse in a “transition arena”;

2. transition arena:

   a. this is a temporary network of “innovators” (around 15-20 are required) that want to bring about sustainable change relating to a particular socio-technical system and hence come together to conduct several tasks such as defining the most urgent and persistent issues, drawing an inspiring vision of the future, working out multiple transition pathways to get to this vision from today,...;

   b. they are not supposed to represent anyone but themselves, they return to their organisations to further the vision they helped create and they should exhibit certain characteristics in terms of

      i. competences e.g. ability to consider complex problems at a high level of abstraction; enjoy a certain level of leadership within various networks; ability to establish and explain visions of sustainable development within their own networks;

      ii. interest profiles e.g. have their own perception of the transition issue based on their own background and perspective; willingness to think together; creative, open for innovation instead of having already specific solutions in mind; ability to look beyond the limits of their own discipline, interest, expertise and world view; already showing drive in terms of actively developing or stimulating innovation, derived from feeling responsible, having an interest in the future, meeting new
people and learning about other worldviews; willing to invest their time and energy;

iii. a diversity of backgrounds in terms of: organizations (e.g. from government, companies, NGOs, knowledge institutes and intermediaries (consultants, mediators, project organisations); domain (e.g. social, economic, environmental); not necessarily (but can be) experts, but also networkers or opinion leaders

while, in addition, a certain representation from the existing regime is necessary with an eye to legitimacy and financing of the process, while ensuring the arena is not mistaken for a consultative platform;

c. the selection should not be done by a “gate-keeper” but by a core group in which also transition experts are present and what should be avoided also is to establish a wide range of bodies around the arena, such as a steering group, a consultation group or an advisory group, as this is the recipe for limiting the space for innovation;

d. the group should attempt to converge, from the articulation of their own initial diverging perspectives and a reflection on their daily routines, towards a more shared problem perception. It is this attempt that itself leads to new insights into the nature of the problems and the underlying causes. Its output is a map of the pathologies / flaws in the current systems that answers the question: why a transition? Based on this new perspective, and through discussion and interaction, a vision is generated which includes for the most part the shared basic principles / criteria for long term development, leaving room for dissent on the short and mid-term solutions, goals and strategies. It also leads to a formulation of “images” of areas that need to change (for, example images of wind energy in a clean energy vision). By definition, this vision will oppose the (implicit) expectations of the regime actors and hence (explicitly) seeks conflict with vested interests and powers to establish a fundamental debate on future development. One of the key things to understand is that from the beginning, there is no claim that the “vision” is in any way the “right” vision. It is understood that this vision will by definition NOT turn out to be “right” as it will constantly be readapted based on learning from experience. Nevertheless, it is essential to enable actors to move out of the grid-lock of the current reality;

e. based on the vision, transition pathways are elaborated that focus on exploring how barriers (regulatory, institutional, economic conditions as well as consumer routines, physical infrastructure, technological) can be tackled;

f. one of the side effects of such an arena is therefore that participants develop a sensitivity for the complexity and uncertainty inherent in societal change processes as well as a perspective on how (small scale) strategic interventions can alter system trajectories over time. In this sense, the arena is not just a network, as its actors are tied by a common belief (even if they have divergent interests) rather than common of complementary interests like a network. It may also be that some participants leave the arena and others are invited to replace them, as the visioning process itself serves as a selection environment;

3. agenda setting:

a. based on the arena, a common transition agenda is set up which contains a number of joint intermediate objectives, action points, projects, instruments to realize these objectives; it should be clear who is responsible for each action, project or instrument;
b. the group involved in this will have been expanded from the original arena to a broader set of actors that represent organisations that have a stake in future development, have sufficient authority and room for maneuvering in their own organisation and insight in how their organization could contribute to the envisaged process; they are willing to operate for more than just a short period of time and have the capacity to translate the vision and the consequences of this vision to the agenda of their own organization;

c. this will lead to interests, motives and policy of these actors to come out into the open with intense negotiations about investments and fine-tuning of individual organisational plans and strategies; coalitions, partnerships and networks usually develop around pathways or around sub-themes where sub-arenas can be created; however, this can also lead to serious tension between the transition arena and the everyday policy agenda of (newly) involved actors which may necessitate a new arena with some of the existing actors but also with some new ones, to set a new direction;

4. **experimentation:** this offers an opportunity to create alternatives for dominant practices on a small scale via existing or planned initiatives and actions. The experiments need to fit within the context of the transition paths, but as such they can compete or complement each other but overall, in the longer term, need to strengthen each other in their attempt to move towards the vision. They should be **iconic with a high level of risk.** As they are time consuming and costly, they should use wherever possible, existing physical, financial and institutional infrastructure;

5. **monitoring and evaluation:** a great emphasis is put on collective reflection within a bigger picture of transition pathways and a vision of the future. Actors should be monitored with regard to their behavior, networking activities, alliance forming and responsibilities. Also the goals, activities, projects and instruments they agreed on need to be monitored. Furthermore, it has to be monitored that learning takes place from experiments and that this knowledge is transferred. Finally, the transition process itself needs to be monitored in terms of rate of progress in tackling barriers. Evaluation then takes of the form of taking a step back and reflecting move fundamentally and collectively on what the monitoring is conveying.

While the idea is that the process creates self-steering networks of actors that connect their agendas to each other and develop experiments together, there remains an important role for government. Government facilitates and intermediates between actors while also ensuring a space exists in “the shadow of policy” where open discussion and experimentation remains possible. Also, it would accept the long term vision as a guide for current policy as put forward by Paredis and Block. (2015)\(^66\).

The transition management activity clusters presented above **do not present a fixed sequence of steps.** Activities can be executed in parallel and iteratively. Indeed, Frantzeskaki and Loorbach (2012) cite examples where transition management started:

- with a portfolio of experiments (like in healthcare in the Netherlands);
- with reflexive evaluation (e.g. via transition monitoring of the Rotterdam Climate Initiative).

\(^66\) “Transitiepraktijk van de Vlaamse Overheid” in Vlaams Tijdschrift voor Overheidsmanagement, 2015 /1
However, they also state that, in most cases, transition management started with the transition arena, the majority of which were initiated by entrepreneurial policy makers (at regional or local level), not as planned projects relating to a broader national policy strategy.

At this point, it is possible to relate strategy on the basis of transition management to organizational strategy, as depicted in

Figure 16. It should be clear that as transitions are situated at the level of societal functions, the strategic visions they put forward are at the level of all relevant actors, rather than a single organization. However, organisations do draw on the transition pathways that are put forward and the strategic initiatives that they launch can be coordinated and supported by the transition platform. In fact, typically, organisations will attempt to set up experiments that benefit them in the shorter term (5-15 years), while at the same time also providing valuable lessons for the transition platform (with a horizon of 30 years). Without a transition platform, focus would be exclusively on the shorter term benefits of innovation. This may still create over time an unguided transition (as has happened in the past) but not necessarily to a more sustainable future.

Figure 16: strategy based on transition platforms versus organisational strategy

More details regarding transition theory and management can be found in Wauters (2015, p.112-159 and p. 309-359).

d. Conclusions

The original question to be answered by this report was whether strategic management is concerned with
• improving performance of ongoing programs or...
• redefining performance to meet new challenges?

The answer is that in a flexible organization, the former is taken care of, to a large extent, by self-steered groups (TQM) who have full authority to structurally improve (tactical regulation) and exhibit strategic leadership at their level. The latter requires the interplay of strategic management -in terms of longer term transitions as well as organisational strategy- strategic leadership and TQM. Indeed, redefining performance to meet new challenges typically concerns questioning the way things are being done and thought about but which cannot be simply changed at the level of operational teams. In addition, self-steered operational teams that have a strong focus on evolutions in the current environment may miss the tsunamis of change on the horizon. Finally, they can hardly, on their own, shape the environment to transition towards a desirable future from the perspective of society as a whole.

At this point, it is possible to put forward a new model of strategic transformation that supports the realization of the ambition for strategic management, in its interplay with TQM and strategic leadership, to redefining performance to meet new challenges.

Figure 17: new model of transformation

The starting point is the huge variety of demand that hits the public sector, due to the different expectations, needs and initial endowments that characterize the citizens of our societies. Indeed, this concerns the quest for well-being and human development.

Indeed, as Alkire and Deneulin (200967, p. 31), drawing on the work of Nobel prize winning welfare economist A. Sen, state: “Functionings are valuable activities and states that make up people’s well-

being”. If someone does not value a particular functioning (any doing or being e.g. leading healthy life, having a meaningful job, ...), then there is no well-being to be derived from engaging in it.

Furthermore Alkire et al (2009, p.234) put forwards that “… there are numerous factors influencing how different individuals convert resource inputs into valued functionings. These ‘conversion factors’ occur at the individual, social, institutional (formal or informal) and environmental level. Individual factors that determine how a given resource will be used include, for example, age, gender, metabolic rate, pregnancy, illness and knowledge. Social or family dynamics are also relevant in converting resource inputs to... outputs of value. Formal rules or informal regulations similarly intervene in our ability to use resource inputs to achieve desired functionings. And, lastly, our natural or man-made environment can facilitate the efficient (or inefficient) use of given inputs.” It is important to understand that having the same resources at one’s disposal does not mean one will be able to convert resources (e.g. public services, policies) into the same level of real choices (options) to pursue one’s ambitions in life to the same degree as others could. Differing conversion factors create a considerable degree of variety in outcomes.

More information on the meaning of well-being and human development can be found in Wauters (2015). Here, we can limit ourselves to the important notion that variation of demand can create large variation in outcomes -implying winners and losers- both in terms of actual well-being as well as in the real choices people have to live the lives they find valuable. It is the challenge for the public sector, together with other actors in society, to reduce this variation while increasing overall performance, today and in the future.

This can only be done by engaging in innovation. However, this innovation can have different sources. In flexible organisations, insights concerning issues can come from the direct encounters of empowered, self-steering teams, using TQM, with relatively new and reoccurring diversity in its environment that the current response does not deal with well enough. Hence this requires a structural response (no matter if reoccurrence will be frequent or not). In other words: it requires an innovation. Many such “tactical” challenges can be resolved as strategic issues at the level of the teams. Some of these however require higher level interventions. Hence, strategic leadership is required at all levels.

Another source of insights, usually instigated by higher level management, comes from future gazing. This can relate to the need to be ready and adapt to what is deemed outside of the control of the organisations, as well as to the need to shape some of the future environment via transition management. Innovation takes shape via experiments that are crucial to develop anticipatory responses and/or shape the future environment. Once again strategic leadership is needed.

---

PART II: Issues in advanced strategic management

1. Acting simultaneously today in support of different time horizons

It is useful at this point to revisit Bryson (2011)’s definition of strategic issues as those issues that require alteration of the organisation and its core business via knowledge exploration, new concepts, changes in basic stakeholders (e.g. clients) and/or relations, radical new technology... Hence, a tension may arise between business as usual, essentially the “old” strategy, and the alteration that strategic management aims to support in dealing with strategic issues. If the alteration, even when involving radical change, is not too difficult to absorb by the existing business, then there should be no need for further reflection on this tension. Using a change management approach, where all teams are allowed to experiment with a proposed change, until stable and proven to be of added value, should then suffice (as described in Wauters, 2017).

However, sometimes the changes may be too big (e.g. a completely new solution for a new need that is looming at the horizon) or conflict too much with the existing business which still needs to be maintained for some time, to be absorbed in this way. This situation is most likely when dealing with societal transitions. Abell, D. (1999) states that “A single strategy encompassing present and future provides the basis neither for running the existing business nor for managing change” (p. 74). According to this author, it is crucial to distinguish “today for today” strategies from “today for tomorrow” ones. This distinction does not refer to a longer term plan with a shorter term one being an operations and budgeting exercise in the framework of this longer term one, but rather a complete separation of strategies each with their own, distinct actions today.

Abell (1999) puts forward that there always needs to be a vision and a strategy concerning how to operate for today, given the current environment. However, at the same time, tomorrow requires a different vision for the future with a strategy for getting there that implies reconfiguring resources.

In the table below, the two kinds of strategies as elaborated by Abell (1999) are differentiated on the basis of the strategic logic of Desmidt and Heene (2005) that was presented earlier.

Table 10: Strategic logic of today for today versus today for tomorrow

<table>
<thead>
<tr>
<th>Strategic logic</th>
<th>Today for today</th>
<th>Today for tomorrow</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For whom?</strong></td>
<td>Precise definition of the business in terms of targeted customer segments</td>
<td>Re-definition of customers</td>
</tr>
<tr>
<td><strong>What value?</strong></td>
<td>Meet current needs</td>
<td>Reconceiving perceived value or delivered cost</td>
</tr>
<tr>
<td><strong>How?</strong></td>
<td>Alignment of key functional activities, suppliers and channels with key success factors to avoid confusion of how to contribute to overall success of the organization</td>
<td>Reorienting goal structures and portfolio roles, reprioritising key drivers for success</td>
</tr>
</tbody>
</table>

“Competing today while preparing for tomorrow” in Sloan Management Review, Spring 1999, vol 40 nr 3
<table>
<thead>
<tr>
<th>Organisation design</th>
<th>Organisational structure mirrors current opportunities</th>
<th>Re-organisation for future opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>Planning to ensure compliance of functional activities with definition of the business</td>
<td>Planning is about taking bold moves away from existing ways of conducting business</td>
</tr>
<tr>
<td>Resources</td>
<td>Existing competences and resources</td>
<td>Redefining competences and reconfiguring resources</td>
</tr>
<tr>
<td>Change</td>
<td>Shape up the business to meet the needs of customers with excellence by identifying critical success factors and giving these due attention = “tuning up” kind of change.</td>
<td>Re-shaping to be more effective in the future</td>
</tr>
<tr>
<td>Process</td>
<td>Seek fit between existing opportunities (“could do”) in the market (that just need to be detected) and current competences / resources (“can do”) as well as “should do” and “want to do”</td>
<td>Devise visions of the future in plural as this encompasses a) multiple dimensions of a vision in terms of future market territory and forces than can shape this, future moves, options and choices, needed competencies and resources b) as well as all these elements differentiated in various scenarios</td>
</tr>
</tbody>
</table>

Source: author’s own adaptation

Abell (1999) also makes clear that installing a parallel process of strategic management makes it more likely to stay in front of strategic issues due to being proactive rather than reactive as depicted in Table 11.

**Table 11: ways to the future**

<table>
<thead>
<tr>
<th>Revolutionary</th>
<th>Evolutionary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnaround (swamped by waves): Crisis management, downsizing to survive</td>
<td>Adjustment (catching the waves): Scramble to catch up, often too little too late</td>
</tr>
<tr>
<td>Radical redefinition (making the waves): redefine businesses and industry</td>
<td>Anticipation (riding waves): see waves as they form and ride them; innovate on many fronts, invest ahead of others in new services and market needs</td>
</tr>
</tbody>
</table>

Source: Abell (1999, p. 75)

However, within a pro-active approach, there is still a difference between anticipation and radical redefinition. The former would correspond more to systems innovation (as discussed in transition
management) while the latter is more related to “regular innovation” (as triggered by future gazing or TQM).

The need to simultaneously act today for today as well as tomorrow is also recognized by Baghai, Coley and White (2000) who identify three different horizons for managing businesses as a portfolio.

Figure 18: three horizons

![Horizon Diagram](https://via.placeholder.com/150)

Source: adapted from Baghai et al (2000)

To these authors, next to today for today (horizon one), there are a second and a third horizon that both concern today for tomorrow. **Horizon two deals with a business that is already defined but still needs to grow and scale** while **horizon three deals with the creation of options** that are the germs for future “horizon two” businesses.

Baghai et al (2000) distinguish the three horizons further in Table 12.

---

70 Alchemy of growth, Basic Books.
Table 12 in effect refines the content of Table 10 by splitting up “today for tomorrow” into horizon two and three. While discussing how to grow private sector businesses, it is not difficult to transpose this framework to the public sector by replacing growth with increasing public value.

<table>
<thead>
<tr>
<th>Table 12: distinctions between horizons</th>
<th>H1</th>
<th>H2</th>
<th>H3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metrics</td>
<td>Return on invested capital / profit / cashflow; traditional financial control</td>
<td>Net present value / revenues; flexible budget / funding commitment based on milestones</td>
<td>Option value / only milestones (market oriented rather than technological); frequent interaction with senior leaders</td>
</tr>
<tr>
<td>Timeframe</td>
<td>Today</td>
<td>Gaining steam, proven, in 3-5 year displacing H1 but could require much investment</td>
<td>5-12 years</td>
</tr>
<tr>
<td>Source of value</td>
<td>Superior execution</td>
<td>Positional advantage (opportunity based)</td>
<td>Insight and foresight derived from clustered initiatives (3-5 themes) creating privileged positions in technology / market (research, pilots, minority stakes,...)</td>
</tr>
<tr>
<td>People</td>
<td>Business maintainers</td>
<td>Business builders</td>
<td>Champions, visionaries</td>
</tr>
<tr>
<td>Capabilities</td>
<td>Existing</td>
<td>Being acquired or developed</td>
<td>Requirements still unclear</td>
</tr>
</tbody>
</table>

Source: adapted from Baghai et al (2000)

Moore (2007)\textsuperscript{21} puts forward that it is **horizon 2 that is in no-man’s land** as horizon 1 is taken care of by traditional budgeting, reporting and management processes with a focus on the current year and horizon 3 is periodically contemplated in terms of long range strategic options, draft multi-year plans

\textsuperscript{21} “To succeed in the long term, focus on the middle term” in Harvard Business Review, July-August.
and long term investments (in particular capital expenditure for asset intensive sectors). Horizon 3 innovators focus, as is natural, on prototypes, not on building a stream of business until a deployment based organisation can take over (new horizon 1). However, a horizon 2 business is like an adolescent: there is no indulgence anymore as towards babies (of horizon 3), but they are still dependents that need to be subsidised by horizon one (incl. via shared resources), who are reluctant to do that, especially if under pressure to perform in the short term. Talent therefore avoids horizon 2 and sticks with the battle zone of horizon 1 or the playground of horizon 3.

Moore (2007) has several proposals to help move more of the horizon three options into horizon two:

- **cluster and coordinate horizon three** initiatives to increase their chances of forming a new horizon two business;
- **isolate and insulate horizon 2 from 1** by creating a separate organisational unit for horizon 2 businesses and then incubating these as businesses out of horizon 3, focusing on high value segments that are ready to adopt first, instead of dropping a new service across the board within the horizon 1 setting;
- **stick to pre-determined funding allocations**, blocking resource migration across horizons, as well as leadership that knows how to build a business to a level where existing operations can take over; avoid the urge to put these people on the most visible current businesses, leaving the adolescents to fend for themselves;
- **ensure that the CEO devotes attention to horizon 2 businesses with metrics suited to adolescents**.

Govindarajan and Trimble (2005) also struggle with the tension between existing organisations and new, breakthrough, businesses. Their focus is therefore on developing “horizon 2”, like Moore (2007). They frame this as the challenge of forgetting, borrowing and learning. The challenge for the new business is how it can borrow some of the assets of the old, without this impairing the capacity of the new business to forget some if what made the old successful, and learn from scratch what is needed to create its own success. A sole focus on forgetting would mean isolation, while too much focus on borrowing would mean full integration. Also, too little forgetting would impair learning.

**Forgetting** concerns notions of what skills / competences are of value as well as the relative predictability of the environment. Awareness that there are differences is not enough. These differences are engrained via past experience, relations between staff, performance measures, planning templates, norms for employee appraisal, often told-stories,… Many organisations make the mistake of using the organisational design of the old business as a basis for the new. Govindarajan and Trimble (2005) provide the following tips:

- **hire outsiders in key management roles incl. to lead the new business**;
- **let the new business report to a higher level than the level the old reports to**: this helps address hoarding behavior from the old and reduces pressure on the new for short term results;
- **Determine how major business functions (marketing, product development) need to interact differently in the new business**;

---

72 “Building breakthrough businesses within established organisations” in Harvard Business Review, May
• Use different metrics than for the old;
• Dare to make complex judgements regarding progress of the new, rather than simplistic checking against plans;
• Create new beliefs about what matters for success.

Borrowing can relate to unique assets such as reputation, relations, operational capacity to more routine items as hiring policies, accounting systems, purchasing processes. Only borrow what is absolutely crucial for the new business. Never borrow just for incremental cost reductions. Once the links between old and new business are established, the next challenge is to anticipate tensions and never allowing these to grow beyond productive levels (creating “us versus them” dynamics). This requires substantial senior management attention, stressing collaboration and debunking myths one side may have concerning the other. The following tips are given:

• Avoid links to HR and IT as well to any other conflicting areas;
• Reinforce values that old and new still share or build a meta-culture of more genera values;
• Evaluate and reward managers from the old business for cooperating with the new. Avoid incentives for the old that conflict with the new;
• Set transfer prices high enough so the old wants to collaborate with the new, but no so high that it become prohibitive for the new;
• Assign a senior executive (influential, respected) to anticipate tensions and continuously reinforce the rationale for the differences between the old and the new;
• Empower the new in its dealing with the old (to counterbalance the naturally greater weight of the old), while ensuring that the new cannot damage the assets of the old.

Learning relates to the fact that the new business will face several critical unknowns. At the outset, any prediction will always be a wild guess. But as the new business learns, will guesses become informed judgements. These in turn, when the new business itself become “mainstream”, will become more or less reliable forecasts. It is not because in the earlier stages, guesses will be wrong, that the business should not be disciplined in making them anyway. Only in this way can it track if it is getting better at guessing. In addition, only by figuring out why the guess was wrong can learning really happen. To support this, it is crucial not to use rigid, inappropriate planning processes. Guesses should be made when needed, based on the timing of decisions, rather than annually. In addition to avoid manipulation of the outcomes, they should relate to appropriate elements, namely those concerning the critical unknowns (usually non-financial), not to the standard performance measures used in the old business. Finally, one should refrain from putting forward stretch targets that are hard to revise. These kinds of targets lead to patterns of aggressive investment followed by complete abandonment rather than the desired gradual zero’ing in on a sustainable level of performance. Some further tips are:

• Hold separate meetings for evaluating progress of the new and old business;
• Evaluate leadership of the new business not on results but on the ability to learn and make sound decisions. Accountability to plans can be crippling to new ventures. It makes it hard also to be open and candid and may lead to taking higher level management outside the new business out of the learning loop all together;
• Simplify plans but plan often, focusing on resolving critical unknowns (hence avoiding detailed plans, broken down by units, etc.);
• Analyse by comparing predicted and actual trends and rates of change, rather than current results.

Abell (1999) also proposes a parallel planning system that is oriented towards making sure that today’s strategies for today do not continue to dominate strategies for tomorrow as depicted in Figure 19. Within the framework of the three horizons of Baghai et al (2000) and Moore (2007), the parallel system of Abell (1999) focuses on how to create horizon 2 businesses that gradually replace horizon 1. It however, like Moore (2007), does not focus on how horizon 3 options can form the germs for horizon 2.
Key in this system is that next to plans with a three year horizon (with their traditional one year operations plans), focused on “today for today”, there are also **change plans that focus on what has to become different over the longer term (5-10 years) and how this is to be achieved in the shorter term (up to three years)**, hence forming the “today for tomorrow” plan. In other words, the change plans are focused on how to achieve a new strategic logic over time, or, to put it differently, ensure that horizon two businesses will replace what is currently horizon one. This can entail disinvesting in the existing strategic logic (e.g. gradually reducing resource commitments to this logic) while simultaneously **building up the new logic in parallel** (e.g. by creating new competences but also by sustaining whatever is still useful from the previous logic) until the latter replaces the former.

To make such parallel systems work Abell (1999) recommends that the division of labour between Chief executive and Chief Operating officers has to be revised as they currently have a hard time talking to each other, with the CEO in charge of the future and the COO of the present. Better would be a CEO that combines both functions or that has two senior managers as direct reports that take care of both aspects. In addition, lower down managers must also be part of “today for tomorrow” strategic management as they are often better placed to detect swelling of oncoming waves and they are crucial if employees are to be prevented from getting confused by what they interpret as conflicting signals about today and tomorrow.

In addition, for excellence today, a bottom-up approach at business unit level should be complemented by a “top-down” one at corporate level to ensure cross-functional / business / partner synergies. For excellence tomorrow, however, more radical changes require more top-down involvement. Similarly to Moore (2007), Abell (1999) also puts forward that **autonomous units to create the future may have to be set up** as the existing structures limit the ability to view the future in new ways. These should engage in an ongoing series of experiments to probe the future and hence
create opportunities and pioneer a vision, while at the same time picking up early warnings concerning potential threats.

An approach that proposes to separate business as usual management and strategy is also elaborated further by Kotter (2012) who states that “Companies used to reconsider their strategies only rarely. Today, any company that isn’t rethinking its direction at least every few years—as well as constantly adjusting to changing contexts- and then quickly making significant operational changes is putting itself at risk”. Kotter (2012) puts forward that mounting complexity and rapid change cannot be handled by—even a souped-up- hierarchy. Strategy should today be seen as an ongoing process of searching (for opportunities), doing (identifying and completing initiatives), learning and modifying. To him, hierarchy is to serve business as usual while networks should support strategy based on five principles:

- there should be many change agents, not just the usual few appointees with about 10% of the whole staff involved, covering all levels, functions etc. and only a few of these working full-time or part time on strategy, with the others volunteering;
- these should be people that want to be change agents (rather than be “appointed”) and feel they have permission for it;
- it is important to speak to their genuine desire to create a better future, giving greater meaning and purpose to their jobs;
- it is based on leadership (vision, opportunity, agility, inspired action, celebration) rather than management (budget reviews, reporting, compensation, accountability to the plan);
- the network and the hierarchy are meshed together, they are NOT two silo’s (one hierarchical, one strategic) and NOT one super taskforce reporting to some level in the hierarchy. This is depicted in Figure 20.

Figure 20: networks and hierarchies

Source: derived from Kotter, 2012

---

Kotter (2012) points to eight key practices:

- Create sense of urgency around a **big opportunity**: this starts at the top (e.g. the executive committee) as they have the big picture and they need to nurture the dual structure;
- Build and maintain a guiding coalition: people need to **apply to this as volunteers** who should be trusted by senior leadership, contain at least a few outstanding leaders and, together can see inside and outside, details and big picture;
- The guiding coalition **formulates strategic vision and initiatives** where the vision must be feasible, smart, appealing, easy to communicate and can be short (e.g. one year) or longer term, depending on the nature of the opportunity. This needs to be presented to the executive committee for comments;
- The guiding coalition **communicates urgency, vision and initiatives** to create buy-in and attract more volunteers where, as this is coming from coalition members, there tends NOT to be the cynicism that greets visions and initiatives that are cascaded down the hierarchy;
- Accelerate movement towards vision by **removing barriers** where the network picks up on issues, analyses them and addresses them with a proposal which also implemented by the network;
- Celebrate short term wins;
- Never let up but **continue to implement** strategic initiatives and **create** new ones, maintaining contact between the guiding coalition and executives;
- **Institutionalise** into the day to day workings.

The approach by Kotter (2012) is easily linked to the concept of “whole of government”. According to Christensen and Laegreid (2007), this approach emerged as a way to avoid policies undermining each other, make better use of (shared) resources, create synergies and offer citizens seamless access to service. While “The WG concept does not represent a coherent set of ideas and tools, just like NPM…” (p. 1060), it does entail shared goals and responses in terms of policy development, programme management and service delivery. It exists in a predominantly instrumental hierarchical version (e.g. UK, New Zealand) that assumes political/administrative leadership is homogenous as well as a more instrumental negotiation oriented version (e.g. Canada) that assumes heterogeneity of both public sector actors as outside stakeholders and hence the need to engage in negotiations. In the former approach more emphasis is put on control from the centre to make organizational units collaborate (e.g. via central coordination units, tightening financial management and accountability regimes, more focus on outcomes, stronger Prime Minister’s office and increasing strategic leadership role of cabinet, focusing more on follow-up of central decisions), while the latter is more about working pragmatically and smartly together (e.g. coordination from below as in one stop shops for seamless service which is more a real collaborative effort requiring autonomy from central control rather than a top down installed structure). However, “procedural bureaucratic models are being superseded by network governance to cater for the WG approach” (p. 1062). When in Kotter’s (2012) model outside stakeholders become part of the network, then it clearly belongs to the latter “negociation” based approach that is gaining momentum.

---

74 The whole of government approach to public sector reform “ in Public administration review, October
75 New Public Management
When the notion of the network is extended towards citizens and communities (beyond organisations) it also becomes linked to the concept of resilience. “Resilience is the capacity of a system, be it an individual, a forest, a city or an economy, to deal with (unexpected) change and continue to develop. It is about the capacity to use shocks and disturbances to spur renewal and innovative thinking” (Moberg and Simonsen, eds., 2014, p. 3). For Bourgon J. (2011), resilience is built up in society via self-reliant individuals who have the ability to take charge of their lives and shape their futures. With a critical mass of such people, resilience is also developed as they work together and learn they can count on each other. This provides a basis for even greater capacity of communities to define issues, find solutions and act as strong networks that lift everyone up when times are good and reduce risks when times are rough (social capital). However, Bourgon (2011) claims that such resilience cannot be created directly, as an intended outcome, by government but that government rather has to avoid taking action that erodes natural resilience by creating dependencies or increasing vulnerabilities. Also, government can nurture existing resilience by building on strengths rather than reinforcing disempowering deficit thinking. One way of doing this is by using collaborative networks and citizen engagement in the design of public policies and programmes and ensuring that helping others is built into the service delivery system, deliberately creating active roles for citizens and communities (co-production).

That Kotter (2012) advocates that it is the top of an organization that needs to create a sense of urgency around a big opportunity may seem to contradict what was put forward in the previous chapter of this paper—that there are many sources for issues and insights— as well as the negotiation based whole of government approach and the safeguarding of resilience. However, Kotter (2012) does not elaborate exactly how opportunities land on the table of executives in the first place. He only puts them forward as key decision-makers on what to pursue further. The role of the network for issue identification can be assumed to be rather important, next to the already very much emphasized role in terms of tackling the issues. Concerning the whole of government approach and resilience, the bottom-up coordination in Kotter’s (2012) model is quite clear. In fact he states “having the executive committee take a first pass at articulating the strategic opportunity. This makes sense because its members are in a position to see the big picture and because their role is vital in nurturing the dual structure—particularly in the early days...”.

While Kotter (2012) also seems to contradict Moore (2007) and Govindarajan and Trimble (2005) in terms of their advocacy for ring-fencing leadership and resources and creating separate organizational units, resolving this contradiction may lead to a more robust approach. Indeed, Kotter’s approach should be modulated according to the three horizons.

For horizon three, where options are being developed and experiments conducted, it is crucial to involve others if any of these “babies” are ever going to have a chance to become horizon 2 “adolescents”. This is also the approach advocated by Kotler and Trias de Bes (2011) who put forward there are a number of important roles to take into account when setting up and supporting innovation processes:

- Activators: initiate the innovation process by putting forward a need, a trigger;

---

76 What is resilience, Stockholm University, Resilience centre.
78 Winning At Innovation: The A-to-F Model, Palgrave Macmillan.
• Browsers: search for information, throughout the process;
• Creators: produce ideas (new concepts, possibilities, solutions) at any point of the process;
• Developers: turn ideas into products/services (also referred to as invention);
• Executors: bring innovation to the organisations that will use them and to the market (also referred to as implementation);
• Facilitators: approve funding and, if needed, de-block the process.

They also state that these roles are not “functions”, meaning that they are not full-time positions situated as such in a functional department within the organisation. They are truly roles that can be played by anyone within the organization that has the capacity to fulfill them. In some cases, this can entail a more substantial piece of work, necessitating that a person’s time is freed up from regular tasks to undertake tasks within this role.

However, this approach does not preclude but rather assumes that resources (incl. financial) are available from facilitators to run the kinds of experiments that make up horizon three. It also does not preclude that innovation can be nurtured in what are now known as “innovation labs”, which provide a space (including financially) as well as working methods to come up with new solutions to (old or new) problems. More insights into the nature of such labs can be found in Wauters and Vervloet (2015)79.

As to the suggestion from Moore (2007), and similarly Govindarajan and Trimble (2005), that the link between horizon three and two is greatly facilitated by setting up a separate organizational unit with a leader that knows how to create and develop such a business, does not conflict with Kotter (2012). Indeed, the new horizon 2 unit also represents a new “hierarchy”, be it a budding one, that, as it grows, will eventually replace or complement the current horizon 1 business. Of course, as some people in horizon 1 hierarchies were already involved in horizon 3 and in creating horizon 2 businesses, it is logical that they could also be part of the further development of the new business (and its hierarchy), under the leadership of a “business builder”. Others may remain within current horizon 1 operations, but can still play a role in terms of tackling barriers to the development of the new business. Govindarajan and Trimble (2005) helpfully clarify what the relation should be between horizon 1 and 2.

This dynamic is also recognized by Kotler and Trias De Bes (2011) who put forward the specific role of “executor” to this end. To them, executors may be present inside the organization that developed the new solution, but also outside. The latter can be done by setting up a new organization or by engaging in a kind of joint venture. Moving an innovation outside the place where it was developed makes more sense to them:

• the more radical the innovation is;
• the longer the projected trajectory is;
• the more there are barriers and resistance in the developing organisations;

79 “Een lab voor sociale innovatie creëren met de Europese structuur- en investeringsfondsen” in Vlaams Tijdschrift voor Overheidsmanagement, , nr 4. This article also puts forward many examples, linked in some way to the public sector of innovation labs e.g. VINNOVA, Stockholm, Sweden; La 27ième region, Paris, France; Mindlab, Copenhagen, Denmark; SITRA, Helsinki, Finland; Barcelona Urban Lab, Spain; Behavioural Insights Team, London, UK; NESTA innovation lab, London, UK; Fonds d’experimentation pour la jeunesse, Paris (national) etc.
• the lower the costs are and the more resources you have (as there is less need to share).

2. Anticipating the future

a. Scenario planning

To be finalized after the Prague seminar.

b. Weak signals

To be finalized after the Prague seminar.
3. Conclusions

To be finalized after the Prague seminar.
PART III: Cases

1. Case: Kaplan and Norton’s system

   a. Description of the system

One way to grasp the concepts elaborated above is to describe one of its most popular formats, namely Kaplan and Norton’s (2008) strategic management system which includes the popular idea of a balanced scorecard. A case, concerning the Ministry of Works in Bahrain, that was included in the 2009 Balanced Scorecard Hall of Fame (Marr and Creelman, 2011\(^{80}\)) is used to illustrate the approach (see figure below).

According to Dr David Norton, co-creator of the Balanced Scorecard “The Ministry of Works is a world-class application: the organisation is committed to investing in the future of itself and the country by building on the best management techniques they can find. Their programme is as good as anything we have seen.” (Marr and Creelman, 2011). The jury stated the following: “Beyond the actual breakthrough performance results of the Ministry of Works, the judges were most impressed by the Ministry’s measurement of employees’ strategic awareness, the consolidation and standardisation of measures, and its ability to link strategy with operations.”

Figure 21: Bahrain case

Source: Ministry website\(^{82}\)


\(^{81}\) [https://www.works.gov.bh/English/WhoWeAre/ministryawards/Pages/Global20Award20for20Record20Achievement20By20Ministry20of20Works(2009).aspx](https://www.works.gov.bh/English/WhoWeAre/ministryawards/Pages/Global20Award20for20Record20Achievement20By20Ministry20of20Works(2009).aspx) retrieved 19/3/2017

\(^{82}\) [https://www.works.gov.bh/English/WhoWeAre/ministryawards/Pages/Global20Award20for20Record20Achievement20By20Ministry20of20Works(2009).aspx](https://www.works.gov.bh/English/WhoWeAre/ministryawards/Pages/Global20Award20for20Record20Achievement20By20Ministry20of20Works(2009).aspx) retrieved 19/3/2017
This system consists of a number of stages.

**Figure 22: stages in the strategic management system of Kaplan and Norton**

Source: adapted from Kaplan and Norton (2008)

The first is to develop the strategy. This concerns deciding what “business” an organization is in and why. The answers to these questions are given in a mission (why the organisation exists, what it offers to customers and clients e.g. we want to discover, develop and market innovative products to prevent and cure diseases...), vision (mid to long term, 3 – 10 year stretch goals with a market focus - a distinct value proposition- and clear deadline e.g. to be a top quartile specialist within 5 years) and values statement (prescribing attitudes, behavior, character as well as forbidden conduct e.g. we respect the individual).

In the case of Bahrain\(^3\) this is:

- Mission: 'provide public works services to enhance the quality of life'
- Vision: to be ‘a leading organization providing quality services’

---

\(^3\)Retrieved from [https://www.works.gov.bh/English/WhoWeAre/Pages/mission-and-vision.aspx](https://www.works.gov.bh/English/WhoWeAre/Pages/mission-and-vision.aspx) on 19.3.2017
A Leading, Professional And Socially Responsible Organization: The Ministry of Works is a lean professional, socially responsible organization, certified for the quality of its services. Its core competencies are policy management, sectoral planning, project management and monitoring, control and evaluation of service delivery by the private sector.

A Leading Customer-focused Organization: The Ministry is a leading organization in promoting public interest, equity and reach of services, transparency, sustainability and conservation of the environment.

A Key Contributor To The Development Of The Kingdom Of Bahrain The Ministry is a key contributor to the development of the Kingdom of Bahrain through master planning, rationalization of the use of valuable resources, management of advanced technology data network, spatial databases, MIS, on-line nation-wide utility coordination, services provision, and promotion of the engineering profession.

The Structure Is Flat, Fully Networked On-Line, Internally And With Stakeholders: The structure of MOW is flat, fully networked on-line, internally and with stakeholders, agile with flexible and empowered work teams and task forces, and with all transactions performed on the network.

A High Quality Performance And Knowledge Management Culture: The ministry espouses a culture of high quality performance and knowledge management supported by efficient, highly integrated and coordinated processes geared towards achieving optimal outcomes. All layers of management are continuously seeking improvements on all processes, systems procedures, practices, services and cost effectiveness.

Values:

- **Excellence:**
  - Consistent quality achievement
  - State of the art
  - Best value for money
  - Being friendly to the environment
  - Distinctive work
  - Creativity and innovation
  - Exceeding expectations

- **Ethics & Integrity**
  - Being honest and impartial
  - Being fair and just
  - Best value for money
  - Upholding public interest

- **Professionalism**
  - Commitment and reliability
  - Good Business conduct
  - Problem solver
  - Work in own area of competency
  - Acknowledge work of others

- **Team Spirit**
  - Working together in harmony
  - Mutual support and respect
  - Synergy

These elements are the background for managers conducting a strategic analysis which typically consists of the external (via political, economic, social, technological, environmental and legal factors) and internal environment (resources and capabilities that give a competitive advantage).
Next this is summed up in a SWOT matrix (e.g. looking at which opportunities can be captured with strengths,...) which then reveals a set of issues.

In the case of Bahrain, no information is provided about a specific SWOT analysis. However, the following challenges and opportunities are listed:

**Challenges and Opportunities**

- Unprecedented and growing demand on infrastructure and public works projects.
- A general awareness and crave for high quality projects.
- Bloom in private sector’s developments and construction capabilities.
- Economic surge.
- Scarcity of land and importance of playing a key role in planning.
- A professional obligation and a social responsibility to lead the organization to high standards.

In addition (Marr and Creelman, 2011, p. 4), the following is stated by Raja Al Zayani, Chief of the Strategic Planning and Quality Management (SPQM) Section: “We held Open Space/Knowledge Café style sessions with over 200 key staff where we explored and discussed how our present strategies,... aligned to the Bahrain National Vision and what we needed to do to strengthen the alignment. The sessions in many ways validated our existing work as we discovered that our strategies already embodied a high degree of alignment with the national goals...Our senior management increasingly sees the core competency of the Ministry to be centered on engendering private sector involvement and partnership, project management, integration, coordination and value engineering...”

The strategic thrusts of the Ministry (whose works range from small projects and services, such as road safety works and repairs to the sewage network, through to large, complex strategic projects such as the building of ports, hospitals, bridges, major highways, sanitary networks and pumping stations) are therefore built around those competencies that are required to engender private sector involvement and partnership and the handling of large complex projects of strategic impact. The competencies for actual implementation and delivery of services are increasingly provided by the private sector.”

Finally, the strategy itself is formulated. Kaplan and Norton (2008) refer to a whole range of possibilities some focusing on leveraging existing positions or capabilities, others on searching for new positions (including operational improvement philosophies such as TQM, alongside strategic approaches such as Michael Porter’s positioning, core competences, resource based views, blue ocean, value based management, disruptive innovation etc. as well as methods designed to minimise

---

85Retrieved from [https://www.works.gov.bh/English/ourstrategy/Pages/Strategy-Road-Map.aspx](https://www.works.gov.bh/English/ourstrategy/Pages/Strategy-Road-Map.aspx) on 19/3/2017
risk such as COSO) and state that “Our work is agnostic with respect to these various strategic approaches, operational improvement methods, and risk management tools. We have seen various companies use them effectively to formulate their strategies” (p.54). Ultimately, the strategy must cover what customers or markets will be targeted, what the value proposition is that distinguishes the organization, what key processes give the advantage, what human capabilities are required to excel at them and what technology and organizational enablers are needed.

In the Bahrain case we find the following (Marr and Creelman, 2011):

“In essence the MoW’s strategies are described through four themes:


2. A key planning player: Ensuring effective collaboration and coordination among Government agencies in order to fully contribute towards effective national strategic and structural planning. This includes ensuring effective policy planning/making and regulatory enforcement.

3. Sustainable quality services: Ensuring the better management of services, projects and quality in order to deliver more and better services that are competitive, fair, customer focused, sustainable and cost effective.

4. A leading professional organization: Being able to attract and retain professionals and high quality competencies, and ensuring a high performance staff and organization.”

The second stage is to translate the strategy into objectives and measures. A key tool for this is the strategy map. Typically, an overall corporate map is linked to maps for operating and functional (staff) units. It is recommend to structure the map according to three to five strategic themes (vertically across the map) to which a senior executive is assigned. This should enable lower unit managers to tailor the theme to their local priorities and conditions and still retain a conceptual link to the higher level, as well as allow to better manage themes with different time horizons. Typically, lower and higher level maps are linked to each other via a cascading process (lower levels responding to the higher level, going back and forth until agreement is reached). In addition, cascading tends to be done up until the level of individual employees.

In later developments, Kaplan (2009) also integrates strategic risk management into the management system by identifying for each strategic objective on the strategy map the primary risk events that could prevent the objective from being achieved. For each risk event, early warning indicators need to be formulated. Of course, rather than wait for these indicators to signal an adverse condition, management should be proactive, focusing on those events with a high probability of occurring and high impact (referred to as level 2 strategic risks. Also those events with a very low probability but high impact are of interest (referred to as level 1 global enterprise risks). Scenario planning is seen as a useful tool for identifying and discussing level 1 risks. Its aim is to discuss how robust an organization is towards future disruption.

“Risk Management and Strategy Execution Systems” in Balanced Scorecard Report, November-December
In the Bahrain case maps were indeed constructed in this way. “cross-functional teams of managers were organized into four teams that would build sections of the Strategy Map according to the strategic themes (‘theme teams’,…). A workshop was then held to integrate the themes within a draft Strategy Map. Following further refinements the corporate level map was approved.” (Marr and Creelman, 2011)

**Figure 23: MoW corporate strategy map**

Source: Marr and Creelman, 2011

This map was replaced by an updated one in 2010.
In addition, there are cascaded maps. For example, the map for the “road sector” is depicted below.

Source: Marr and Creelman, 2011
Figure 25: MoW road sector map

Source: Marr and Creelman, 2011

Also support units have their own maps, linked to the corporate one.
Marr and Creelman (2011) also report: “Since mid 2009, the MoW has been focusing heavily on integrating risk management with strategy and assessing, reporting and improving both through the Balanced Scorecard….risk management is only integrated at the corporate level. For each objective a risk Heat Map has been created with the likelihood of risk being rated from very low to very high on a vertical axis and the negative consequences to the MoW if risk should happen from very low to very high on a horizontal axis. A risk title is provided for each objective and a risk description. The scorecard initiatives that will mitigate these risks are also listed. Once a quarter a risk assessment for each objective is conducted where the focus is on those risks that are red on the Heat Map.”

The figure below described the system at the MoW.
Once the maps are ready, they are linked to a scorecard of metrics with targets, which, due to the various perspectives on the map, is referred to as “balanced”.

One of the key differences for the public sector considered early on by Kaplan (1999) was that instead of the financial perspective at the top and the customer perspective immediately below, the top perspective would be the mission (overarching objective) of the organization and immediately below, a perspective that would contain three themes: cost of service (incl. social cost), value/benefit of service (incl. positive externalities) and support of legitimizing authorities (legislature who acts as financial “donor”, tax payers). Value / benefit requires a view on who benefits (e.g. citizens at large in the case of regulatory or enforcement agencies). It is also recognized that it may be hard to provide a financial value but at least outcomes or outputs should then provide a proxy.

87 Retrieved from https://www.works.gov.bh/English/ourstrategy/Pages/Strategy-Optimization.aspx 20/3/2017
88 “The balanced scorecard for public-sector organisations” in Balanced Scorecard Report
Marr (2009) proposes a value creation map (with an average time horizon of 12 months) where the financial and customer perspective are replaced by one perspectives referred to as “output stakeholder value proposition/output deliverables” (answering why an organization exists, what its roles and deliverables are, what value in terms of outcomes it delivers). This allows to choose whichever stakeholders are relevant to the organization and to relate output/outcomes to these stakeholders. In essence, this is the same as what was proposed by Kaplan (1999). In addition, internal processes are referred to as core activities (the vital few things the organization has to excel in). Finally, the learning and growth perspective becomes “enabling elements” (relating to financial, physical and intangible resources).

Moore (2003) proposes to create a public value scorecard based on his ideas presented above. For him, the public value part can be made more concrete in several ways:

- Using a logic model (with mission as end)
- Broad mission and more narrow goals reflecting a contributing logic e.g. 1000 immunisations contribute to universal eradication of certain diseases)
- Linking short term to long term objectives
- Deconstruct the large objective into more specific ones (e.g. health is made up of good eye sight, few sick days, etc...)

---

As to measures that monitor the strength of their relationship with financial supporters, and public legitimators and authorizers as well as those that record their impact on the world, Moore (2003) proposes:

- sources of revenue, split into type of relationships:
  - charitable donors
  - members or regular contributors
  - government financial supporters
  - paying customers
- share in endowment income, income generated from investments through effective cash management, etc., other material contributions such as time and material
- flow of authorizations or political legitimation (“licenses to operate” or “vouching for the organization with other players”)
- performance objectives for “accounts”, ordered in terms of their size and strategic importance to the organization

Operational capacity could be measured as follows:

- Organisational output
- Efficiency: cost (overhead/direct) versus quanity/quality of output
- Financial integrity (fraud, waste, abuse)
- Morale and capacities of staff, volunteers
- Morale and capacities (leverage) of partners
- Learning and innovation (improve efficiency of what it does, adapt what it does to novel conditions, invent new things to do, change mission and strategy):
  - Derives from those doing the work encountering a new problem, attempting to solve it, work out the implications of the solution, after which, if relevant, it needs to be spread in the organisation...
  - …or from deliberately initiated experiments, often supported by innovation funds

Another adaptation of the scorecard idea was proposed by Talbot (2011). He builds on the ideas presented above regarding three types of interest and maps these against five perspectives. The resulting table displays the kinds of tensions that need to be balanced by public sector organisations.

Table 13: balancing tensions in public sector organisations

<table>
<thead>
<tr>
<th></th>
<th>Self-interest</th>
<th>Public interest</th>
<th>Procedural interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust and legitimacy focus</td>
<td>Respect for individual rights, complaints and restitution, and confidentiality</td>
<td>Respect for democratic and consultative decisions</td>
<td>Respect for democratic and consultative processes</td>
</tr>
<tr>
<td>Resources focus</td>
<td>Are purchased in economic and competitive ways</td>
<td>Are purchased in socially useful ways (for example fair trade, fair wages, locally etc.)</td>
<td>Are purchased in fair, transparent and honest ways</td>
</tr>
<tr>
<td>Processes focus</td>
<td>Are flexible and responsive to individual wants and efficient</td>
<td>Are equitable, responsive to democratic control and are effective</td>
<td>Are formalized, fair, transparent and honest</td>
</tr>
<tr>
<td>Services focus</td>
<td>Are delivered in flexible, cost-effective and efficient ways with choice for individuals</td>
<td>Are delivered in socially equitable and effective ways</td>
<td>Are decided in democratic and participative ways</td>
</tr>
<tr>
<td>Social results focus</td>
<td>Are delivered in cost-effective ways which enhance individuals’ lifestyles</td>
<td>Are delivered in equitable ways which enhance social justice</td>
<td>Are decided in democratic and participative ways</td>
</tr>
</tbody>
</table>
The final step in stage 2 is to identify strategic initiatives (discretionary projects of finite duration e.g. developing a customer loyalty programme) designed to close multiple performance gaps (as they can be linked to more than one objective typically across perspectives). Initiatives within the same theme form a portfolio under the responsibility of the senior executive assigned to the theme. Resources come from a specific strategic budget (stratex) separate from operating and capital expenditure budgets.

In the Bahrain case, Marr and Creelman (2011) state:

“Supporting the Strategy Map is a scorecard of measures, targets and initiatives. Again, as part of the Balanced Scorecard design and implementation process, teams of senior staff and managers were assigned to the creation of measures, targets and initiatives. For confidentiality reasons, specific targets are not described here. However, targets have been set for each objective to both the short term (one year) and long term (six years in advance). In many cases these targets represent a significant stretch.

As an example of measures and initiatives consider ‘highly motivated and performing staff,’ a Learning & Growth objective. Metrics include ‘staff development’ and MoW retention capability’. Initiatives include ‘create a prestigious leadership programme to develop leaders in the public sector,’ and ‘improve the quality and availability of training.’

As a further example consider ‘excellent management of quality’, an objective within the internal process perspective. Metrics include ‘risk severity index’ and ‘corrective/preventative actions closed on time’. Initiatives include ‘Implement Total Quality Management’ and ‘Establish Quality Management- achieve certification – e.g., ISO 9001.’

Stage three entails planning operations. This basically relates to maintaining an improving ongoing operations. Process improvement projects (which are not strategic initiatives) are defined. Those that would also contribute to objectives on the strategy map are prioritized as their short term gains will also affect longer term performance. In order to be able to do this, strategic process objectives on the map need to be decomposed into critical success factors and metrics that employees can focus on in their daily activities. Next, a sales plan is drawn up that allows to deconstruct the sales target into the expected quantity, mix and nature of orders, production runs and transactions. Then the required resources can be defined (incl. in terms of personnel). This then determines the operational budget and the capital expenditure budget (for maintenance or expansions). Finally, discretionary spending not driven directly by sales is decided.

In the Bahrain case, no explicit mention is made of this step.

Stage four consists of monitoring and learning. Operational reviews meet frequently (daily, weekly) to review operating dashboards and to solve short term issues. People attending come from a single department, function or process (e.g. a sales meeting, a finance meeting). Strategy review meetings are attended by the CEO and other executives either on a monthly basis for 2 to three hours when they are based in the same location, or quarterly for a day when dispersed. They are devoted to a deep dive into one or two strategic themes (not the entire map). These meetings take strategy as a given.
Stage five consists of testing and adapting the strategy. Here strategy can be questioned. It typically occurs annually and off-site (although it may also be triggered at any time by a major disruption or opportunity). It focuses on reconsidering the map and new strategic options that have emerged since the last meeting. Changing the map triggers the entire cycle again.

To support the strategic management systems Kaplan and Norton (2005\textsuperscript{90}) promote installing an “office of strategic management”, typically with 6-8 full time staff. This is supposed to perform the following functions:

- Create and oversee the strategic management system: help senior management to create the BSC, select performance targets and identify strategic initiatives (organisational improvement projects);
- Institutionalise the use of the BSC across the organisation, making sure that all units support the common strategy (and each other in the case of support units);
- Communicate the strategy e.g. through newsletters, CEO speeches etc.; coordinate with HR to ensure that skills necessary to the new strategic management system are acquired by staff;
- Review the strategy: organise and lead the reporting and review meetings, ensure that changes to the strategy are implemented in the corporate BSC and throughout the organisation;
- Refine the strategy: screen new strategic ideas coming from staff and stakeholders and convey promising ones to senior management;
- Manage strategic initiatives that cross unit lines and report progress to senior management;
- Consult with key strategy support functions:
  - Planning and budgeting: ensure that budgets reflect those established during the strategic planning process (e.g. strategic initiatives, reallocations of resources to new priorities);
  - HR: ensure HR manages employee incentives, competency development and annual reviews consistent to with strategic objectives;
  - Knowledge management: ensure that best practices and ideas critical to the strategy are shared throughout the organisation.

Concerning HR, Kaplan and Norton (2003\textsuperscript{91}) proposed the concept of “strategic job families”. This concept builds on identification of the set of competences that were identified to be key in performing each of the critical business processes (in the internal process perspective). These competences are put in the learning and growth perspective of the strategy map. Strategic job families are then those categories of jobs in which these competences can have the biggest impact on the critical processes. For each of these job families, HR then has to create competency profiles (in terms of knowledge, skills and values) and then assess the employees in these jobs. According to Kaplan and Norton (2003), only 5% of the staff in an organization is crucial to strategy and hence must be specifically targeted with human capital development programmes. However, this does not imply that other employees do not require development. Indeed, as strategy should also be

\textsuperscript{90} “The office of strategic management” in Harvard Business Review, October
\textsuperscript{91} “Strategic job families” in Balanced Scorecard Report, November-December
everyone’s job, this involves key values and priorities to be integrated in every employee’s objectives and actions.

In the Bahrain case Marr and Creelman (2011) state: “OSM has eight people with a wide range of skills covering areas such as strategic planning, the Balanced Scorecard, Total Quality Management/quality assurance, risk management and Activity Based Management…SPQM (Strategic Planning and Quality Management Section) facilitates a series of business review and report progress meetings…. Note that the SPQM is expected to facilitate strategy management - not own it....day to day ownership for strategy, especially its execution, had to lie with the business. The cited theme teams are key to this ownership. These teams maintain responsibility for scorecard implementation. Each team is led by a 'Theme Team Owner'…. At the corporate level these ‘owners’ are drawn from the senior team and key professionals within MoW…. Members of the executive team have ownership of corporate level objectives (and so must work closely with the Theme Team owners).... There are also owners for each objective at sector and directorate levels.

Theme Team business plans are updated annually and feed into the annual strategy review, which is then cascaded to the business units.

Each quarter the Strategy Map and Balanced Scorecard is reviewed, which includes detailed analysis and reporting of progress, with a goal of assessing the effectiveness of implementation of the strategy and launching any corrective actions when progress is not at the required level.

The review process begins with Internal Sector Business Reviews (ISBRs). The purpose of ISBRs, which are chaired by an Assistant Undersecretary, is to clarify and sharpen the performance focus and messages that will be delivered at the following quarterly Sector Business Reviews (SBRs) and Corporate reviews.

The SBR and Corporate Reviews are chaired by His Excellency the Minister. Starting with SBR’s for the three sectors (roads, sanitary and construction), an SBR review is then held for corporate support units, services (including HR and IT) and finance units. These reviews serve as a prelude to, and inform the corporate review. Within SBR and Corporate review meetings, all objective owners present to HE the Minister. This raises the importance of all objectives and heightens personal responsibility and accountability at the objective owner level.

In reporting scorecard performance...clearly separate and distinguish between the reporting of objectives and of initiatives. For reporting of performance to strategic objectives,....used four as opposed to the conventional three colour-coded ‘traffic lights’: Red (poor performance), yellow (less than targeted performance), green (good or targeted performance) and blue (breakthrough performance).... Reporting is by ‘exception’, that is only for objectives that are not ‘green’. For initiative reporting the MoW uses only three status colours, Red (in trouble), Amber (issues but manageable) and Green (OK Ahead, where the meaning of these colours is very different from the objective status colours. Reporting by exception is also the norm for initiative status. ... The MoW defines objective performance status reporting as a backward looking indicator that is based on historical data only, whereas Initiative reporting is in essence the ‘management of expectations’, and as such is a form of ‘forward’ reporting...”
Concluding the MoW case, it sees itself (see figure above) as having a high degree of maturity, reaching the stage of strategic agility.

b. Reflections

To be added after the Prague seminar.

c. Conclusions

2. More public sector cases

To be added after the Prague seminar.

---

92 Retrieved from https://www.works.gov.bh/English/ourstrategy/Pages/Strategy-Maturity.aspx on 20/3/2017
ANNEX: Bryson’s (2011) comprehensive process

Before going through all the steps in the model, it should be clear that for Bryson (2011), the model accommodates different starting points as depicted below.

In addition, as depicted above, “action” does not have to wait until step 7 is finished. It is possible that an issue needs to be dealt with immediately or that an action is required to understand the issue better.

**Step 1: initiating and agreeing on a SP process:**

- Identify who key decision-makers are
- Which persons, groups, units, organisations should be involved
- Initial agreement will be negotiated among them
- Requires a preliminary stakeholder analysis:
- To immerse oneself in the networks and politics surrounding the organisation
• Identify the “stakes” (criteria for judging the organisation) and how well the organisation performs from the stakeholder point of view, how they influence the organisation, what the organisation wants from them (money, staff, support,...) and how important they are
• Helps clarify if different missions are needed and/or different strategies, whether mandates should be changed and other strategic issues

**Step 2: Identifying organisational mandates:**

• Various “musts” it confronts
• Requirements, restrictions, expectations, pressures, constraints
• Formal and informal (typically political)

**Step 3: Clarifying mission / identity:**

• Social justification for existing activity
• Social, economic, environmental or political demands or needs the organisation seeks to fulfill for stakeholders
• Careful stakeholder analysis required to determine purpose for “whom”
• Requires lengthy dialogue

**Step 4: assessing external and internal environment**

• Requires monitoring variety of trends and events as well as important external stakeholders (especially those that affect resource flows) to identify opportunities and challenges:
  o External
  o Future oriented where scenarios can show different plausible futures
  o Better identified by outsiders to avoid being captured by existing categories of classification and search since they formalise and routinise the past
  o Threat of stakeholders withdrawing support is one of the reasons organisations reinvent, restructure, reengineer...
  o Critical success factors = criteria one MUST meet (incl. mandates identified in step 2)
• Requires monitoring resources, present strategy and performance (outputs and outcomes) to find strengths and weaknesses:
  o Internal
  o Present

**Step 5: Identifying strategic issues**

• Steps 1-4 attempt to slow down things so there is enough information and interaction for good deliberation
• As issues involve conflict, they raise emotions and hence this step requires emotional intelligence of those involved
• Iterative nature of SP becomes apparent as the mission itself may become an issue
• An issue statement consists of three elements:
  o A question one can do something about with more that one possible answer
  o Factors that make the issue a fundamental challenge: what is it about the mission, mandates, SWOTs that make for an issue?
Consequences of failure to address
About one page

- Different ways to identify issues:
  - Direct: Straight from mission, mandates, SWOTs
  - Indirect: Brainstorm possible actions (towards the mandates, mission, SWOTs,...) first, then cluster them into groups and derive issues from that
  - Start with goals or CFSs or indicators and identify issues in terms of achieving those
  - Sketch a vision first: this is more apt if you want to find really adaptive issues (Bryson, 2011, p. 58)
  - Action oriented strategy mapping:
    - create cause and effect maps of actions (oval mapping) where important clusters of actions may comprise strategic issues
    - Useful when people are having trouble making sense of complex issue areas, time is short, emphasis must be on action and commitment of those involved
  - Find issues by identifying misalignments between mission, mandates, goals, strategies, actions and systems
  - One can further deepen understanding of complex issue areas with a systems analysis (breaking up the issue area in elements and how they are linked together in feedback loops)
  - The issues should create some useful tension to prompt organisational change

- Map them into strategic and operational and then also in requiring immediate response, to be monitored and to require attention in the future
- Check if issues should be combined or split
- Attention should be focused on issues as questions, not on answers:
  - If only one answer, then it’s just a choice
  - Question should stimulate thinking out of the box
  - People will come with their preferred solutions (wish list) anyway, so challenge them to explain exactly how that addresses the issue
- Ensure the issue can be addressed:
  - otherwise it is not an issue but just a constraint
  - There should be some useful clues about how to resolve the issue:
    - What exactly is it in the mission, mandates, SWOTs that creates an issue / question
    - Links to overcoming weakness, building on strength,...
- Issues framed in a multi-organisational/institutional way will have to be addressed by more organisations (the same goes for several departements in one organisations, rather than just one)
  - This is a key tactic to force decision makers to share power and to consider strategies that are about doing the right thing, rather than just efficiency in perhaps the wrong thing to do
- Initial framing of issues is likely to change based on further deliberation and dialogue if people are aware of the consequences of not dealing with an issue (in terms of lost opportunity, etc.)
• Expect misalignment issues to come up as you progress
• Prioritise and/or sequence issues
  o E.g. temporal/logical order by using an issue-precedence diagramme (relating the issues to each other as cause-effect)
  o May be opportune to try to develop strategies for lower priority issues first (learning by doing on issues that are not so tricky)

**Step 6: Strategy development**

• Five step process:
  o 1) Formulate alternatives, visions, dreams in response to the issues in action terms (do, get, achieve, …)
  o 2) Enumerate barriers / constraints to those alternatives, visions, …
  o 3) Develop major proposals to achieve them directly or indirectly (by tackling barriers); display and link the proposals in a cause/effect map to articulate more clearly the relation among options
  o 4) Identify actions to be taken in the next two or three years to implement the proposals
  o 5) Prepare a detailed work programme for the next 6 monts to 1 year

Relating to this aspect, Boyne and Walker (2010) and (2004\(^93\)) have done a lot of research on the content of strategies in the public sector.

**Step 7: review and adopt**

• Criteria:
  o Technically workable
  o Administratively feasible
  o Politically acceptable to key (internal and external) stakeholders
  o Results oriented: create public value
  o Fit organisation’s identity even if the purpose is to change the identity
  o Ethical
  o Legal
  o Dealing with the issue

• Careful deliberation and negotiation among key decision-makers who have adequate information and are politically astute is required

• Finding or creating inducements for key stakeholders to secure their support is part of the game

This is therefore the step where “traditional” strategic goals typically are formulated. However, as depicted in the figure below, Bryson (2011) also facilitates that goals are used in the process at other times. Most notably, goals formulation at step 7 is not the same as at step 9. For step 7, they are

---

\(^93\) STRATEGY CONTENT AND PUBLIC SERVICE ORGANIZATIONS” in JOURNAL OF PUBLIC ADMINISTRATION RESEARCH AND THEORY
used to review the logic of the overall strategy, while for step 9, they are used as part of action planning, and hence are far more specific. It should also be clear that until step 7, goals do not need to be agreed. But as of step 7, they are strategy specific.

Source: adapted from Bryson 2011

Step 8: Organisational vision

- What does it look like when the strategies have been successfully implemented and achieved their full potential?
- Added to a summary of mission/identity, strategies, performance criteria, decision rules, ethical standards expected of employees
- At this point it is a guide for strategy implementation
- But (less elaborate, fragments of) visions can be formulated already earlier in the process (see especially steps 3 “mission” and 4 “SWOT”) as depicted in the figure below
- A vision is not always needed to get performance improvement –this can happen by enhancing current business- but it is a crucial element if you want to challenge current strategy by identifying adaptive issues
Step 9: Develop an effective implementation process

- Action plans contain:
  - Roles and responsibilities of oversight bodies, teams, task forces and individuals
  - Expected results, objectives, requirements, milestones
  - Specific action steps
  - Schedules
  - Resource requirements and sources
  - A communication process
  - Review, monitoring, correction procedures to build in capacity for learning
  - Accountability procedures (based on performance measures and learning)

- Successfully implemented strategies result in the establishment of a new regime of implicit/explicit principles, norms, rules and decision-making procedures around which actor’s expectations converge in a given area (Bryson, 2011 p. 65)

Step 10: reassessing strategies and the strategic planning process

- Organisational learning:
  - Hard look at what is really happening
  - Open to new info
  - Wisely assessing
  - Inventing new expectations that make sense of unprecedented events
  - In short, acting “mindfully”
  - View strategic management as “action research” or “utilisation focused evaluation”