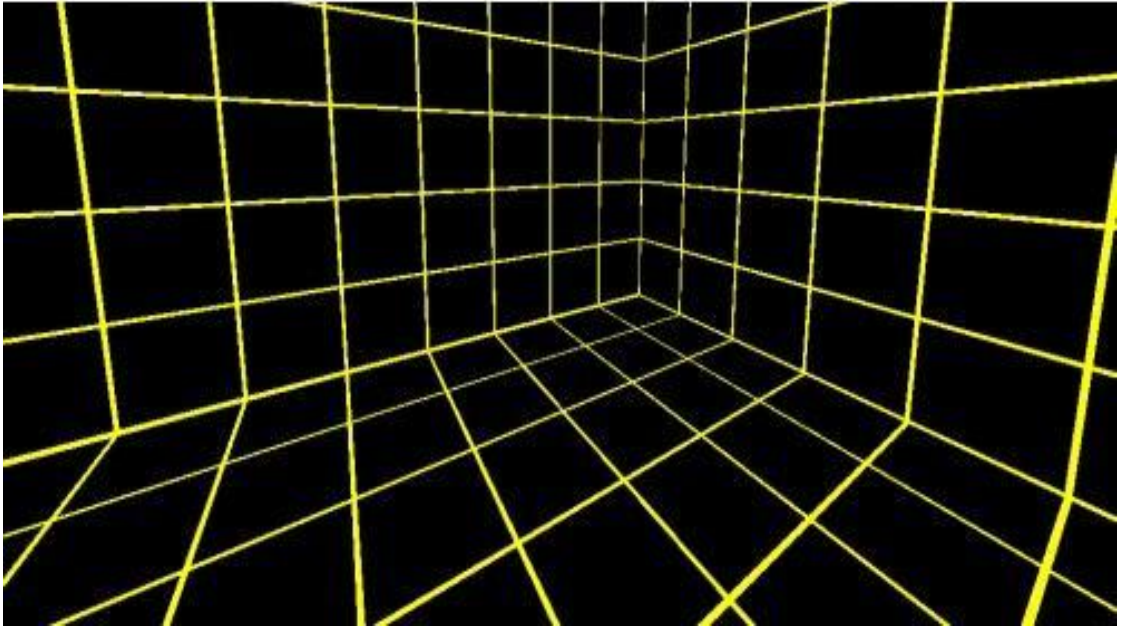


# Public Sector Strategy



How to really work smarter

Graham Godbee

# Public Sector Strategy:

## How to really work smarter

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## Preface

The ideas and tools presented in this book have evolved over many years of teaching and practicing strategy in the public sector.

For thirty years, I was consulting and teaching strategy in Australia and overseas to corporations and MBA students. Teaching a subject forces the teacher to really know the subject!

But most of these activities were in the business sector where the profit motive was clear and strong. While there was the complexity of competition, there was also an obvious goal to make outstanding profits. Such a goal gives ready clarity and focus for strategic direction. The business sector also has a ready-made measurement system: accounting exists mainly to measure performance in monetary terms. That is profit – the bottom line of the income statement.

Our interest here is **Strategy in the Public Sector**. Ideas on strategy go back thousands of years in military spheres and politics. Military strategy is the **first dimension of strategy**. While operationally complex, the strategic issues are relatively simple (at least compared to the business and public sectors). There is normally only one “competitor” and the time frame is limited.

Many military ideas were transferred to the formative stages of business strategy – the **second dimension of strategy**. However, major limitations and differences were found in applying military concepts to businesses. As a result, business strategy needed to evolve new models and tools, which it did, mainly in the 20<sup>th</sup> Century.

Today, the public sector is a major part of our society and is growing in importance. The public sector is also being given more complex and challenging tasks than ever before. This is our **third dimension of strategy**.

There is, of course, considerable variation within the public sector: between the levels of Government (local, State, Federal) and between Departments

and between Government enterprises and so on. However, there are also similarities and we present general tools which then can be modified when applied to specific cases.

There have been attempts to transfer migrate military and business strategy models and concepts across to the public sector sphere. Some have worked well and others poorly. Strategy in the public sector is generally far more complex than, and is certainly different to, strategy in the military and business dimensions. We need to specifically consider strategy in the public sector.

Over time I was doing more training and consulting on strategy in the public sector. There was some early work done with the NSW Police although they were initially interested in learning how to apply commercial concepts in their activities against criminals who were motivated by the profit motive.

Stints assisting not-for-profit organisations and being on boards of charities gave an appreciation of the need for strategy in these sectors. These assignments also quickly showed the many complexities of devising and applying strategy in the public and not-for-profit sectors. Consulting with numerous Government Departments in Treasury, Education, Corrective Services and Government utilities in power, water and waste management forced development of thoughts on public sector strategy.

Strategy in the public sector has great complexity due to:

- multiple, and often conflicting stakeholders;
- vague missions;
- lack of objective measures;
- even lack of measurement systems;
- more restricted access to resources

As well, the tasks of managers in these sectors are far more socially complex than challenges faced by managers in the private or business sector. Time frames are generally more extended too, making the devising of strategy both more critical and more effectual.



Meanwhile, both government and charity agencies now face more competition than ever. This is not just competition in servicing clients whether it is schools or jails or roads or disability services or employment services or whatever. There is also competition for funds and other limited resources. Rarely do we have the luxury of resourcing to our desires.

Meanwhile, politicians from all sides have picked up the mantra of “**working smarter**”. When asked how the government of the day will deliver on outlandish promises without providing any resources, the fall-back position is we will “**work smarter**”.

In the lead up to both the 2013 and 2016 federal elections, both Governments had to admit that the budget deficit had blown about by another \$12 billion or so from the estimates just weeks earlier. How was the Government going to redress this blow out and move back to its promised budget surplus in a few years?

Easy! One of the measures was to increase the **public sector efficiency dividend** from 1.25% to 2.25%. Problem solved at the stroke of a pen! Abbott reduced the dividend on coming to office but Turnbull reinstated it when he needed to fill a hole. Again, public servants were to do even more with less.

There is not just a credibility gap in this response but also an intellectual and application gap. How do we work smarter?

We have pushes for greater **efficiency**. This means **doing more with less**: greater output from fewer staff and other resources. This means **working harder** rather than **working smarter**.

Both businesses and public sector organisations can usually pick up some operational improvements to increase efficiency. Almost without exception though, such improvements are marginal. We might pick up a few percentage points of improvement over time.

The big gains come from being **effective**. Doing what we should and discarding the superfluous. Being effective requires insightful analysis, superb strategy, proper planning and diligent delivery.

Most public sector managers are practiced at planning and they often perform miracles on delivering results with limited resources. But the demands are growing beyond what these operational capabilities can deliver.

As New Zealand physicist Ernest Rutherford said when racing against better funded teams to be the first to determine the structure of the atom: *“We haven’t the money, so we’ve got to think.”*



Our aim is to get the thinking right, to put the “strategic” into “strategic planning”.

We want to analyse the situation swiftly to determine what is happening and why.

Then we need to forecast where it is heading and how we will need to operate in that future space.

We need to assess our capabilities to handle the situation.

We need to develop coherent and creative strategies that will deal with the situation given our capabilities in order to achieve the desired results and outcomes.

In short, we need strategic analysis and strategy formulation.

The lack of tools to assist in the analysis and formulation of strategy in the public sector is disappointing and frustrating.

There are either few tools available or else there are just cosmetic renovations of business models that prove inadequate in the more complex world of the public sector.

This frustration forced the devising of new tools and re-engineering of others with many trials along the way. This book presents a suite or kitbag of tools to aid in most situations. These tools have been tested and honed through many successes and failures. The evolution continues.

Here you will find a process or guide with an array of tools to help the public sector manager. Some theory around public choice and public sector management is provided early in the book to lay a foundation for the role of the senior public manager.

Certainly, strategy and its processes are a complex field of study. The book aims to make this study accessible and to be practical and of use. At the end of each chapter, there is a Key Points summary section to help organise your thinking.

This is a guide book. It takes you, the reader, through the wilderness to your destination swiftly and surely while enjoying your journey.

You can peruse whichever chapter meets a need at the time.

There is a pedagogy or logical sequence to the book, if you have the time and interest to read through the book.

You can freely skim through introductory parts to gain a feel for the background and order of thought until you delve in detail at the section of interest.

A dominant theme is to focus on outcomes before being concerned with processes and inputs. In other words, firstly be effective before pursuing efficiency.

Setting a pertinent mission and goals, then conducting strategic analysis and formulating robust strategies are the means by which we do what we should. (And avoid undertaking tasks that consume our resources but do little for our mission).

This book provides tools and processes to move towards achieving your mission by working smarter. All you need to apply is intelligence, skills, experience, determination, sensitivity, courage .....

## **About the author**

Graham Godbee has been a teacher, economist, finance manager, marketing manager, university lecturer, director, consultant, father and bottle washer.

He came out of university in 1975, into the NSW Education Department as an enthusiastic young teacher. This was not to be tolerated by the bureaucracy of that Department. Something had to give and it was not the Department.

He then spent some time in a large publicly listed company and found bureaucracy is not the sole preserve of the public sector. But the profit motive certainly provided focus to actions.

He has taught finance and strategy at Macquarie University's Graduate School of Management since the mid 1980's and been a Visiting Fellow in the University's Centre for Money, Banking and Finance. His doctoral thesis was on understanding the performance of organisations.

Along the way, he has been a director of an international sports good manufacturer (with the Malaysian Government as an equity partner), a printing company, an investment company and mining prospectors. The range of consulting clients is more diverse.

He has consulted and trained with numerous Government departments, agencies and charities at State, Federal and overseas jurisdictions. Awareness has grown about how vital these organisations are to our social and economic well-being, how dedicated most public managers are and how difficult is their task.

These experiences led to developing many of the ideas, models and tools to be found in this book.

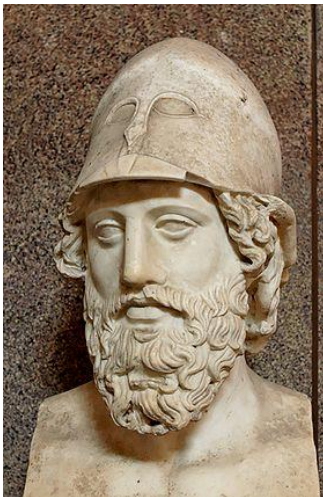
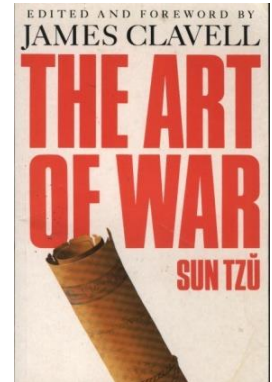
Here are tools to help you work smarter, not harder.

# 1. Strategy and the Public Sector

## 1.1 Does Strategy Apply to the Public Sector?

Strategy has been systematically applied in the private sector for decades and is a major component of every business degree. Strategy formulation is one of the defining roles of senior executives, Department Heads, CEO's and Board directors.

Military strategy has been in use for millennia. Sun Tzu's *Art of War* is the oldest known Chinese military literature. It was probably written around 400 or 500 B.C. (not all the dates tally). The writings themselves are only 13 brief chapters but vast manuscripts have been written in the business press about his thoughts.



The Spartans in Greece were recording strategy concepts at much the same time. Indeed, the word “strategy” comes from the Greek word “strategia”, meaning generalship.

The strategos was the rank of a general in Greece and is once again the highest rank in the Greek army.

In Athens until 400 BC, leading politicians such as Themistocles, Aristides, Pericles and Cimon were generals as well as politicians.

*Bust of a strategos, circa 400 BC*

In 1520, Machiavelli published his *Dell'arte della guerra* (Art of War). This was more concerned with the relationship between civil and military issues in the **grand strategy**. Machiavelli's *The Prince* is a seminal treatise on government strategy despite viewed as “not politically correct” today.





The “father of modern military strategy” is often referred to as Carl Philipp Gottfried von Clausewitz (1780-1831). A Prussian soldier and theorist, he helped reform the Prussian army.

Von Clausewitz defined strategy as “*the art of the employment of battles as a means to gain the object of war.*” He thus elevated strategy to beyond the immediate battle to a higher goal.

Von Clausewitz later amended his definition to that of Moltke: “the practical adaptation of the means placed at a general’s disposal to the attainment of the object in view.”

Liddell Hart [Strategy, 1967] offered his definition of military strategy: “*the art of distributing and applying military means to fulfil the ends of policy.*”

This definition puts military strategy as just one of the means towards political ends.

It accords with the thoughts of French Statesman, Georges Clemenceau, who stated that “*war is too important a business to be left to soldiers.*”

Thus military strategy becomes a subset of the **grand strategy**, where the entire nation is mobilised to achieve the goals. In this environment, much of military strategy is reduced to **operational strategy**. With technological advances in communication and politicisation of military forces, grand strategy and operational strategy have tended to merge and be blurred in recent times.

### ***Does strategy apply to the Public Sector?***

Until recent years, public sector strategy has achieved scant attention in the academic arena. The focus has been on business strategy instead.

Michael Porter’s early publications (1979 – 85) established him as a leading light in business strategy. Critics say he merely made

microeconomics digestible for business executives. Actually, he brought clarity to the understanding of industry forces and the likely intensity of competition and industry attractiveness (as measured by profitability for the incumbents). This was espoused by “Porter’s Five Forces”: internal rivalry; new entrants; substitutes; suppliers; and buyers.



When it was pointed out to Porter that he had neglected Government as a force, his reply was that Government was unimportant or, if necessary, it could be accommodated by how it affected his Five Forces!

Even so, Porter has profited from advising Governments on strategy for their economies, including New Zealand and Libya. His lack of success in Government strategies (even country or regional strategies) demonstrates how limited business strategy models are in the public sector.

Porter’s dismissal of government in strategy assessment is not unique.

The public sector has not fared well in most publications. The standard European strategy text is “*Exploring Corporate Strategy*” by Johnson and Scholes. The combined references for the public and not-for-profit sectors are in two pages.

“Strategic Management and Business Policy: Entering 21<sup>st</sup> Century Global Society” by Wheelen and Hunger does devote a chapter to Strategic Issues in Not-for-Profit Organizations (but nothing on the public sector). It is the last and smallest chapter but at least it is there. The Australian text: “Strategic Management” by John Viljoen provides some of the better and more conceptual appraisal of strategy in the public sector.

We should rephrase our question as:

**Should strategy apply in the public sector?**

Our answer is unequivocally **yes!**

Public sector strategy is increasingly relevant due to four major developments. These developments are evidenced in the following sections.

1. The growing importance of the public sector worldwide as a proportion of the economy and society.
2. The development of conceptual models on public sector goals and decision making.
3. Scarcity of resources in the public sector but increasing demands that require strategy to enhance effectiveness.
4. Philosophical shifts in the view of requirements of the public sector.

## **1.2 Growing Importance of the Public Sector**

Our first argument is the growing importance of the public sector. It has almost become an article of faith that the private sector is the growth engine of the economy. It is promoted as the most efficient provider of goods and services [see the views of the latest Australian Public Service Commissioner, John Lloyd]. Small government advocates argue that Governments should only provide the core basics of defence, justice and public order (and maybe some medical / health and social welfare safety net activities). Such statements rarely offer supporting evidence that society would be better off from such privatisation. On the other hand, there is considerable evidence to refute many of these claims in many instances.

Issues such as global warming, the need for carbon taxes and unsustainable land use highlight the failure of the private sector to adequately account for public goods or intergenerational equity when it looks at the bottom line of the Income Statement, i.e. annual profit.

There have been pushes for corporate triple bottom line reporting, where the effect on the community and on the environment are also considered. Generally, such considerations have had little influence on business decisions. Much of the argument by big business for a trebling of Australia's population seems to have more to do with easily gaining sales



and profit growth this generation with little consideration of quality of life for future generations.

The global recession from 2007 (mainly in Australia is it called the global financial crisis) once again showed the need for the public sector to mollify the excesses of the private sector and the “greed is good” mentality. In America, banks, car manufacturers and others paraded their propensity to privatise the profits while wanting to socialise the losses as they sought bail outs, hand outs and cop outs from the public purse.

McKinsey & Co, doyen of management consultancies, recognised the rising importance of the public sector when it highlighted 10 major trends rolling through the world (Ian Davis and Elizabeth Stephenson, McKinsey & Co, 2006). One trend was that big business would face increasing scrutiny for its impact on the environment and community. Consider how Coca Cola, McDonalds, Wal-Mart, Google, Facebook and others are coping with social media reaction to their activities on health or local communities or tax minimisation.

A second trend was that public sector activities would **balloon** [their term]. Much of this is due to aging populations:

*“The unprecedented aging of populations across the developed world will call for new levels of efficiency and creativity from the public sector.*

*Without clear productivity gains, the pension and health care burden will drive taxes to stifling proportions.*

*The adoption of proven private-sector approaches will likely become pervasive in the provision of social services in both the developed and the developing worlds.”*

Some of the projections can be mind boggling.

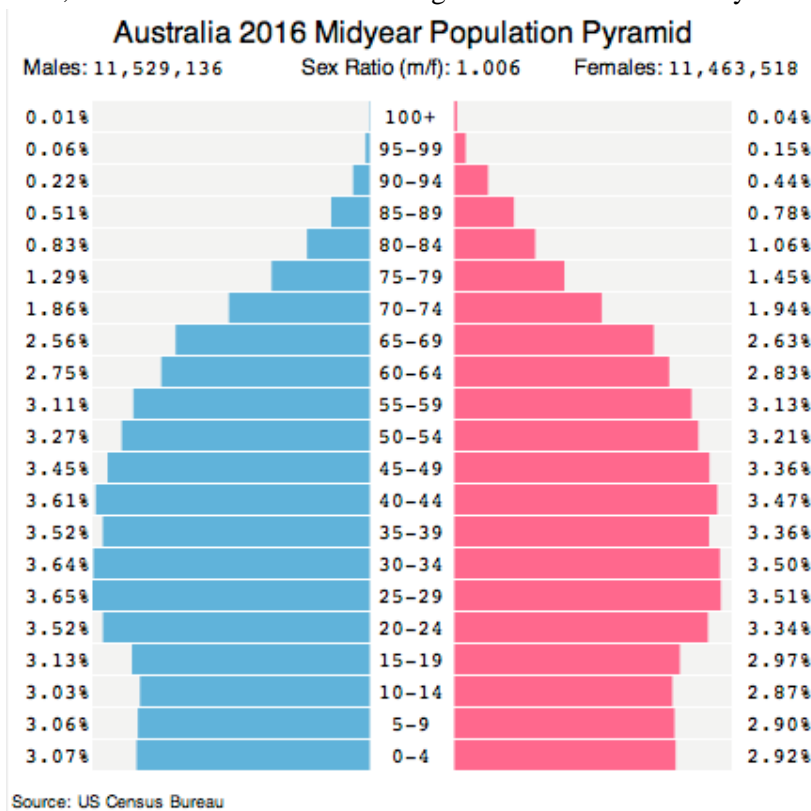
*Change in Germany’s population over the age of 75 from 2005 to 2015: 33% Increase in tax burden needed to maintain current benefit levels for Germany’s future generation: 90%*

*Change in Japan's population over the age of 75 from 2005 to 2015: 36%  
 Increase in tax burden needed to maintain current benefit levels for  
 Japan's future generation: 175%*

Australia's own aging demographics are well appreciated. In one of the longest term views taken by both sides of the political fence, Australia started moving away from reliance on old age pensions and towards self funding of retirement in the 1980's. Attention to the aging population is continuing with policies such as baby bonuses, removal of mandatory retirement and changing immigration goals.

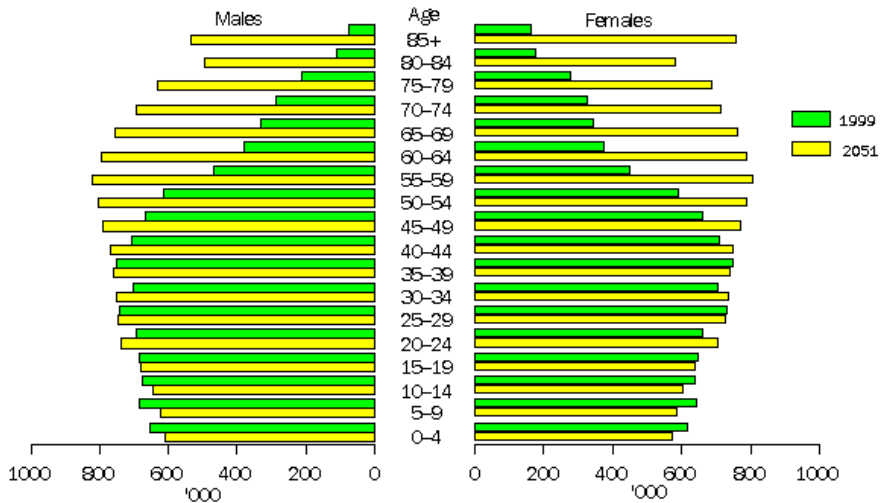
On the opposite side of the world, France is facing civil unrest as it seeks to raise the retirement age to 62 in order to cope with its aging population.

The bulge as our baby boomers move through their life cycle is well known as shown below. But we should not ignore the following generations. From 2010, so called Generation Y had begun to outnumber the baby boomers.



It is factors such as longer life expectancy (mortality dropping) that lead to economic concerns as we try to accommodate the health and other needs of an aging population with a reduced work force.

The changes to our population demographics by 2051 are graphed below. The pyramid shape will disappear.



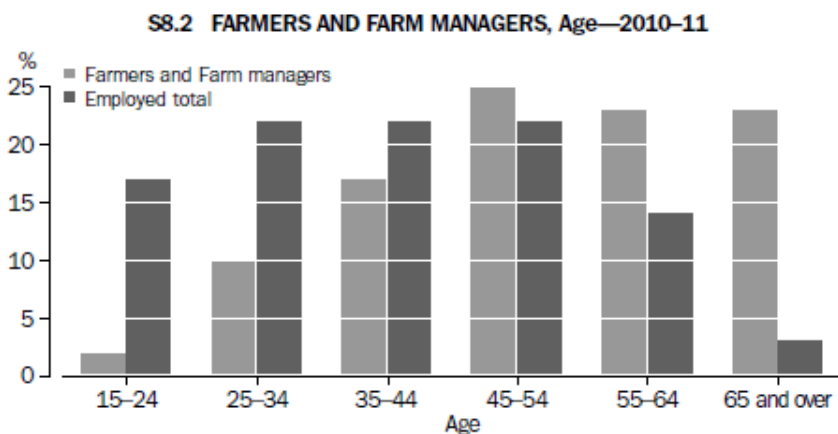
Source: ABS

The proportion of our population over 65 was just 8% in 1970. By 2000, the proportion was 13%. It is now 15% and is projected to be 25% by 2056.

The implications are numerous and extensive. It is calculated that the window for democratic reform of pensions closed in Germany in 2012. It closed in France in 2016. By then, older voters were too big a voting bloc to overcome on pension reforms.

We should be aware that averages often hide some disturbing local issues: for example what services we need to provide our youthful indigenous population or the low life expectancy of the indigenous population (the points are linked).

There are also issues with aging rural communities and the average age of our farmers. In 2012, the National Farmers Federation estimated the average of Australian farmers at 52 years old – 12 years older than the national average for other occupations. The ABS found the picture even more alarming with nearly a quarter of all farmers aged 65 years and over.



Source: ABS data available on request: Labour Force Survey.

These are just some of the issues with aging populations. The importance of the public sector lies goes beyond aging populations.

The public sector has always been large. In Britain, for example, the public sector accounts for 20% of the GDP and nearly 40% when welfare payments are included. [GDP or gross domestic product is the statistician’s indicator of the output of the economy].

The numbers are similar in Australia, even before the recession of the late 2000’s. Including health, education, etc., the proportion of GDP taken up by government expenditure quickly surges to about 20%. Add welfare payments and we reach the British figures of 40% of all expenditure.

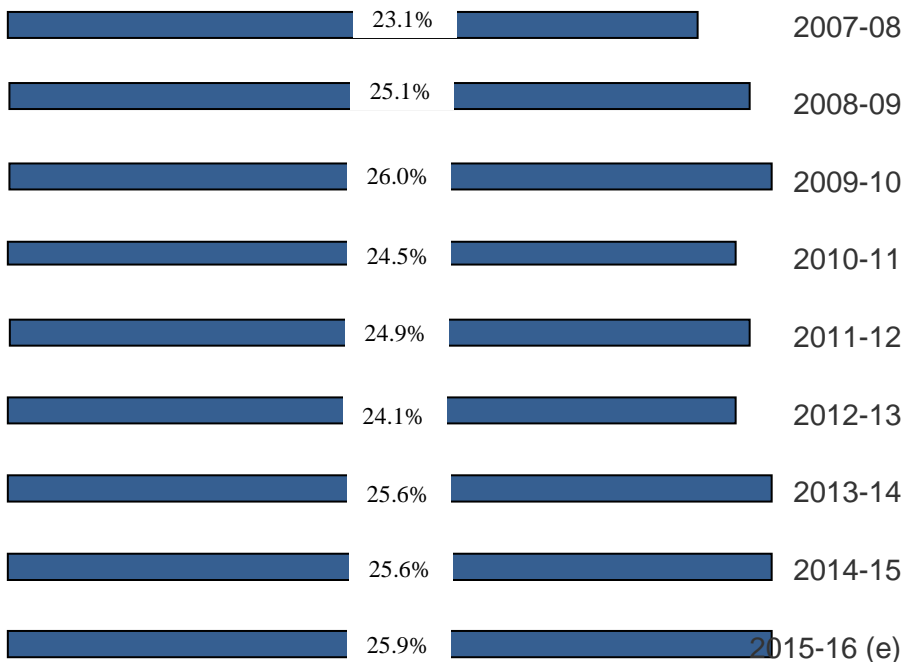
This proportion of our economy accounted by the public sector was before the “Global Financial Crisis (GFC)” in 2007-8 when private investment collapsed and public sector investment stepped in to stimulate the economy. In Australia, public sector investment rose by a staggering 40% per annum during the recession.

Since the end of the mineral boom, most investment growth has been due to the public sector, not the private sector.

The graph below is for payments by the Federal Government alone as a proportion of the economy. We can then add State and local Governments. We could then add the grey area of Federal, State and local Government enterprises such as water provision and other infrastructure, engineering work and more. The fastest growing airport in Australia is Newcastle Airport which was a joint venture of the Newcastle and Port Stephens Councils which have now been merged.

The Covid19 or Coronavirus of 2020 has again highlighted the importance of the public sector: not just for its imposition of isolation and testing regimes but also as the most resilient part of the economy.

#### Australian government cash payments as % of GDP since GFC



Source: [Table D1, Appendix D, MYEFO 2015-16](#).

Across all tiers of Government, revenue is currently about 38% of the economy and expenditure is 40% of the economy (hence budget deficits).

Note that these figures on the relative size of the public sector in our economy are based on the economists' definition of Gross Domestic Product (GDP). This is a very crude measurement that discounts the value of the public sector.

Even Federal ministers fall into this trap of using GDP. In May 2010, Senator Kim Carr, then Minister for Innovation, Industry, Science and Research, released a statement saying in part:

*“The public sector accounts for around 34 per cent of GDP in Australia and it provides services and infrastructure that underpin the whole economy.*

*“A more innovative public sector will ultimately give us a more productive and competitive economy and a fairer and more inclusive society.*

*“It is also critical to delivering improved government services and doing it cost-effectively.*

We shall return to the cost-effectiveness statement later. For now, consider the claim that the Government sector accounts for some 34% of GDP.

By September 2010, the Federal Treasury admitted flaws in placing so much emphasis on GDP measurements. A senior Treasury official admitted Treasury was guilty of overusing gross domestic product (GDP). It is a flawed measure of economic wellbeing and social progress. [*Speech given to NatStats Conference, Sydney, 17 September, 2010.*]

The Treasury's macroeconomics director Dr David Gruen told an audience at the NatStats conference in Sydney that the body uses gross domestic product to measure economic wealth despite knowing its limitations.

(AAP Image: of Dr David Gruen, Alan Porritt, file photo). He is currently in the Department of Prime Minister and Cabinet.



*“Economists and statisticians have long known that GDP is not and was never intended to be a measure of wellbeing or progress. While we have long known its limitations, we as a discipline, have not done enough to discourage its use in inappropriate places,”* Dr Gruen admitted.

*“It also does not factor in many goods and services produced by the public sector, thus in effect favouring the private sector and privatisation.”*

*“It doesn’t appropriately measure the goods and services produced by the public sector, and it can also sometimes give a misleading picture of how well the economy is performing.”*

GDP simply neglects much of the benefits and activities provided by the public sector.

We can safely say that the public sector is large in terms of output in the economy, even larger when we consider its role in transfer payments (pensions and the like) and dominant in regulation. As well, economic measurements, severely understate the importance of the public sector.

It is vital then for the wellbeing of Australia that the public sector should perform well: both effectively and efficiently.

### **1.3 Development of Conceptual Models**

Our second argument for the validity of public sector strategy is the development of conceptual models to give a theoretic underpinning of public sector goals.

Coinciding with the growing significance of the public sector and its activities, public sector management has been evolving with the development of several conceptual models.

These models and theories have been developing since the 1950’s but have expanded rapidly in recent years with wider acceptance.

Prior to these conceptual models of public service management, most strategic analysis in the public sector was merely descriptive: “have a go and muddle through” or an extension of strategy development for business. Yet business strategy is inadequate for public sector requirements.

The development of conceptual models is significant in that it allows some systematic study and theoretic underpinning of ideas for testing hypotheses and further understanding of what the public sector does.

Some of the relevant theories are outlined below.

### **1.3.1 Public Choice Theory**

Public choice is the application of modern economic tools to political science. Public choice theory aims to apply economic analyses (e.g. decision-making and games theory) to the socio-political decision-making process in order to explain systematic trends towards inefficient government policies.

The theoretic underpinnings can be traced back at least to Duncan Black in 1948 with **median voter theory**.

Choice under uncertainty is part of decision-making. Arrow (Nobel Prize winner) developed “Social Choice and Individual Values” in 1951.

Lehman coined the term “**decision theory**” in 1950 as part of an interdisciplinary study on how managers make, or should make, decisions and how optimal decisions may be achieved. Note that most decision theory is normative or prescriptive: what people should do. It uses that old economics foundation of a rational person making decisions. Recent trends in economics have seen this presumption challenged and even abandoned. Since most people do not typically act in optimal ways, we also consider positive or descriptive analysis: what people actually do.

James Buchanan (Nobel Prize winner in Economics in 1986), together with Gordon Tulloch co-authored “*The Calculus of Consent: Logical Foundations of Constitutional Democracy*” in 1962, which led to **public choice theory**.



The theory challenges the presumption that majority decisions are inherently fair. It shows why some special interest projects (pork barreling) logically proceed despite not being the desire of the majority.

The theory also discusses why many government agencies are “**captured**” by special interest groups because they do not have a profit goal to guide or limit their behaviour (George Stigler, another Nobel Prize winner). Instead, a mission or goal is used as the guide. But those who will benefit from the agency may lobby regarding the mission’s definition and then lobby for resources to be diverted to the agency for their benefit.

From this outcome, Tullock and Niskanen recommended allowing several bureaus or agencies to supply the same service in the hope that competition would increase efficiency (perhaps our private versus public health, education and prison systems).

This approach has been used in the United States of America which has the benefit of a sufficiently large economy and society to afford multiple suppliers and competition. Such a luxury is not afforded to most economies and so instead we need to be more diligent in ensuring efficiency and fairness from monopoly suppliers.

Fort and Baden even recommended a predatory agency whose mission is to reduce the budgets of other agencies (and whose own budget allocation would be based on success of cutting other agencies’ budgets). An example is perhaps the various “razor” committees or even the Treasury departments.

Other theorists have recommended using prices to balance interest groups. For example, charge bushwalkers in State forests a high entrance fee that will see them demanding that more sensitive areas be excluded from logging. Our universities are an example where increasing user pay fees for courses has led to greater demands from students for better quality facilities and better teaching staff.

An outcome of Public Choice philosophy is that people in the community should not be directed by bureaucrats but should have more say in selecting the public goods and services they want. This philosophy has been

evidenced in Australia in local community involvement models being introduced. The National Disability Insurance Scheme is along these lines.

Not surprisingly, from the above examples, public choice theory is often viewed as conservative or small government in philosophy rather than traditional Keynesian interventionist economics. This is not necessarily so and the two philosophies can be compatible.

### **1.3.2 Games Theory**

Game or games theory is a scientific approach to what has been practiced for millennia. It moved into economic theory with statistical analysis, mainly through John von Neumann.

During the 1940's and 1950's, Von Neumann was trying to understand how the world of people really worked. He was joined by a neo classical economist, Oskar Morgenstern. Together they founded the first principles of game theory and subsequently received the Nobel Prize. Initially the games were zero sum or competitive games but they were later extended to co-operative behaviour or win/win scenarios through the work of John Nash.

Games theory reminds us to consider beyond the present. What we do now will have consequences and reactions in the future. So public strategists need to consider not just today but what will happen in the future as their policy unfolds and other "players" react to the strategy. This ability to "look forward and then reason back" is a prime skill for public sector strategy.

### **1.3.3 Paradox of Choice**

Paradox of choice is a psychological theory of significance to public sector management. Developed by Iyengar, Lepper and Schwartz and others, it shows how more choices may lead to poorer decisions or even no decision.

One cause is **paralysis by analysis**. Uncertain as to what decision to make (or unwilling to make a decision for various reasons) we fall back on the excuse of needing to undertake more analysis or to gather more data.

Karl Weick has written much about making sense in organisations and the inability to make decisions. Not making or deferring a decision is actually a decision: usually a sub-optimal one!

**Rational ignorance** is perhaps another cause for failure to make a decision or for decisions to be delayed. This concept argues that it is rational for voters to be ignorant regarding public sector issues. They know that their vote (and voice) is rarely significant and so do not bother wasting time learning about such issues or else they rely on others to tell them what to do - thus more power to media “shock jocks” and social media commentators. Analysis suggests this may have been a deciding feature in the Brexit vote for Britain to leave the EU.

In private sector decisions though, people are much more knowledgeable because not only is the decision more likely to affect them directly but more importantly, they have a choice and voice in the decision e.g. what is the best car or superannuation for me?

The above conceptual models are an overview of some of the developments occurring in public sector management and community issues. The field is still evolving. The first world conference or meeting of Public Choice Societies was not held until 2007 in Amsterdam.

The value of the models is that they begin a theoretic underpinning for the need and use of strategic analysis and planning in the public sector. We begin to become more scientific and systematic in determining what the public sector should be doing.

## **1.4 Scarcity of Resources and Growing Demands**

Our third argument for the relevance of public sector strategy is on the growing demands for public sector services while restricting resources. As stated in Section 1.2 above, the demands on resources required by an aging population are already being felt – not just in health and other services but in the loss of working age population.

Other demands such as global warming, depletion of natural resources and recognition that Australia, like most of the world, has been depleting its environment in an unsustainable manner, all add to growing requirements for public sector provision of goods and services.

At the same time, there is a lack of political will (or public acceptance) to raise taxes – at least from influential interest groups. We are seeing moves to reduce company tax with little justification than dogmatic belief.

Other pressures such as fiscal constraint and international debt rating agencies as well as neo classical economic thoughts, are inhibiting the running of budget deficits.

The result is ever tighter budgeting of public sector services or abdication to the private sector or not-for-profit sector to provide public goods and services.

An alternative, and more politically palatable, method is to achieve more with less. This has led to the public sector mantra of **more efficiency**.

Recall the statement from Senator Kim Carr on innovation earlier:

*“It is also critical to delivering improved government services and doing it cost-effectively.”*

Efficiency describes how much resources are consumed to achieve the outcome. The fewer resources spent to achieve the outcome, the more efficient the process. Alternatively, the more output for the same expenditure of resources, the greater the efficiency.

Efficiency measures may be hours of labour spent, paper used, car travelling time, number of clients interviewed and so on. The problem with these efficiency measures though, is that they are specific to a certain task. It is difficult to then benchmark or compare the efficiency across tasks or organisations. We also know nothing of the quality of the action.

The most common denominator is money. We usually talk in terms of dollar cost to achieve an objective. This is more readily done in the private sector. Many public sector tasks do not easily translate to a monetary

measurement. For example, what is the dollar value of a suicide prevention service or prison diversion schemes?

A branch of economics popular in the 1970's was welfare economics. It sought to assign monetary values to pollution, time spent in traffic congestion, feelings of safety and so on. While we still use some of these estimates in social cost – benefit analyses, welfare economics has generally choked on its own assumptions and value judgements. Some social goods and expenses are just very difficult to quantify in dollars!

Nonetheless, we still have a focus on efficiency and that is understandable.

However, having a prime focus on efficiency has undermined a greater priority: **are you firstly effective?**

**Effectiveness** has only recently gained more attention. Effective means doing what you should in order to achieve your goals.

It is pointless to be very efficient if you are not doing what you should: achieving the desired outcomes. You could flick through this book in a matter of minutes and say you have looked at the book. But if you learned nothing, thought about nothing and changed nothing, then your efficient skim reading would not be particularly effective. [Comedian Woody Allen joked he speed read Tolstoy's *War and Peace*. Apparently it was about Russia].

Focus on effectiveness requires that the organisation has very clear goals for what it wants to achieve. It also requires the goals to be expressed in **measurable terms**. The cerebral challenge for public sector managers is that the measurable terms are unlikely to be dollars profit. Time and effort need to be spent up front determining good and appropriate measurements.

Strategy is first and foremost about being effective, about achieving your goals – and then secondly about doing so with the least costs. Effectiveness requires strategic focus and planning.

*“God is on the side of the heavy battalions”*. Although attributed to Napoleon it was actually said by one of his marshals. (Napoleon apparently

said God was on the side of the best cannon, which is a different observation). Anyway, it is Voltaire's reply that is most remembered:

*"God is on the side, not of the heavy battalions, but of the best shots."*

We need to become the best shots to get "the most bang for our buck."

As Brian Eastoe (long time public sector manager, then private sector executive then consultant to the public sector) has commented: *"the biggest issue in public sector management has been too much concentration on process and too little on outcomes."*

Mission and strategy are focused firstly on being effective. They are critical to achieving **the right use of resources** to the benefit of stakeholders. First and foremost, our public sector managers and executives need to be effective. Then we can worry about being efficient. That is the focus of this book.

## **1.5 Philosophical Shifts in Demands on Governments**

The last imperative pushing for greater strategic decision making in the public sector comes from changes (or cycles) in philosophical views on Governments and the public sector.

The Labor Party experiments with the "Third Way" of market based socialism, emulated by Tony Blair and Bill Clinton have largely played out. It has also been called the New Public Management model. As Geoff Gallop [former Labor premier of Western Australia] says, departments became agencies and authorities were corporatised and often privatised. The conservative parties pushed this trend even further. But there are signs the push is faltering. The new direction is unclear.

It will be more complex than in the past. Certainly, there is blurring between the private and public sectors in services offered and more interrelationships. This varies from greater public scrutiny of the private sector through public-private partnerships to withdrawal from previous public sector activities and full privatisations.

In any case, we are seeing two major developments in public sector management:

1. Greater take up of private sector management techniques to improve both effectiveness and efficiency.
2. Greater need to understand private sector goals, strategies and tactics in order to have equal capabilities in joint actions and negotiations with private sector partners.

Lynelle Briggs, then Australian Public Service Commissioner, at the ANZSOG – PM&C Conference in February 2006 gave a keynote speech on New Directions for Implementation which included the following observations.

Factors driving change across Australia’s public sectors include:

- ❑ community or citizen expectations,
- ❑ challenges to implementation,
- ❑ organisational performance,
- ❑ complex, difficult or “wicked” problems,
- ❑ political will to improve the realisation of policy goals.

Geoff Gallop, now Professor at the Graduate School of Government at Sydney University went on to say:

*“In recent years, however, we have seen a new tendency emerge – **Strategic Government**. It involves the outlining of a vision, the setting of objectives and targets in consultation with the public, the development of strategies to achieve the objectives, and the formation of collaborative arrangements within government and between the government and private and community sectors to carry out these strategies. It is often linked to a new concern for and belief in the sustainability principle and its triple bottom line of economic, social and environmental objectives.*

*Strategic Management has emerged from the contradictions within New Public Management – between efficiency and effectiveness and between individual choice and public provision. Democratic pressure has not just pushed for a more holistic resolution of these contradictions but*

*also for new powers and interventions to deal with complex problems associated with poverty and social exclusion, to tackle the new policy agendas in health, education, community safety and welfare, and to respond to the threats posed by terrorism and global warming.*

*Increased relationship complexity associated with Strategic Government requires new capabilities for public servants and moving beyond the simplicities associated with the “Let the Managers Manage” depiction of public accountability and ministerial responsibility.*

ANZSOG Lecture 25 October 2006

## **1.6 State of Play in Public Sector Strategy**

Many government departments and agencies have been introducing strategic planning and have undertaken some preliminary strategic training.

To date, most of this planning has been operational or tactical or restricted to budget planning. These tasks are important and cover much of public sector activity and management but there is much more to public strategy.

Lynelle Briggs discussed the evolution of “**program management**”.

In its introduction in the 1980’s, it was used in a limited sense to “run a program”. It then evolved to reflect new styles of operating in the public sector. Today, it describes the overall intervention by the Government to achieve its policy objectives.

Briggs continued:

*“As it has evolved, program management has taken on a ‘change’ focus. The term itself implies, in my view, a responsiveness to the environment (political, social, cultural, strategic) that drives change; but also changes to structures and processes, to a more strategic focus on expected outcomes and, if necessary, to culture—with a clear view to achieving the Government’s policy objective.”*

Briggs echoes Gallop’s view that senior public servants now need new and diverse skills to handle the complexities of the new world.



## 1.7 Reactionary Alternatives

Having touted the arguments for a stronger and more effective public sector, there is no guarantee that it will happen.

In particular, with the private sector struggling for growth, an obvious solution for private sector firms is to replace public sector “competitors” with themselves.

The 2007 – 8 recession\* was devastating to many property developers who were highly geared and poorly run. In NSW, the Government property developer Landcom, was exceptionally well run with a professional management and experienced Board. Landcom had little debt despite paying large dividends to the State Government. Its developments were diversified and well balanced. It was attracting the best talent from the private sector.

This could not be tolerated by many private developers. They lobbied strongly for either the culling or death of Landcom. At the least, it should stop competing by developing and selling residential estates. Their argument was that Landcom should only do the difficult tasks of approvals and land development and then hand over the blocks to the developers to make their margins.

So much for the argument that the private sector always operates better than the public sector.

But the view that the private sector is the doyen of efficiency is entrenched. In September 2016, the Federal Coalition Government’s favourite consultant, Ernst & Young, released a discussion paper acknowledging the demands being placed upon the public sector. The “solution” by Ernst & Young was to basically hand over the public service tasks to the private sector wherever feasible.

- Technically Australia did not have a recession in 2008. Recession is defined as 2 consecutive quarters of negative growth. We had 1 quarter of negative growth. With much pump priming by the Federal Government, the next quarter had 0.1% growth off the lower base.

The Public Service would be effectively reduced to a contract oversight role. *"Scaling back the public service to doing what is core and capitalising on the strengths of private and non-government organisations is required to deliver services better and more cheaply,"* the report said.

This view is presented as a "New World Vision".

*"The public sector now needs to be increasingly focused on where and how its capability can best be deployed, for example as a regulator or a manager of a market,"* the paper said.

*"Delivery will increasingly be undertaken by the private and non-government sectors in markets that are contestable."* [Fairfax Media]

The presumption was that of course the private sector could deliver better than the public sector. The paper presents an ideology not an argument. Unsurprisingly, Ernst & Young was the most generous recipient of consulting Government contracts between the Coalition election win in 2013 and the end of 2015. They received over \$67 million which was 30% higher than second place getter Pricewaterhouse Coopers. [Fairfax Media]

It would seem that the Public Sector as a whole needs a grand strategy to defend itself against ideological attack.

## Key Points of This Chapter

1. The public sector accounts for some 40% of our economy by production and spending measures and even more by social impact and employment measures. Our overall wellbeing is highly dependent on an effective public sector.
2. The importance of the public sector will continue to grow as aging populations, environmental concerns and other issues rise further.
3. At the same time in our global economy, governments are generally finding it difficult to raise taxes or run continuing deficits. As a consequence, funding is constrained just as demands on government spending are growing.
4. The mantra then has been to do more with less. Some gains can be made through efficiencies. Such gains are generally marginal. The big gains come from being more strategic and effective.
5. Public sector strategy is still in its infancy. Attempts have been made to migrate military and business strategy models to the public sector. However, public sector strategy is different to military and business spheres and is certainly more complex.
6. The complexity is due to the multiple stakeholders, lack of objective measurement systems and greater resource constraints among other factors.
7. Public sector manages need tools to make timely decisions that will lead to attaining their missions and goals.
8. The public sector needs to demonstrate and argue its credentials against private sector encroachment.

## 2. Use of Strategic Models

Strategic analysis and strategy formulation can be complex and daunting. It helps to keep a high level perspective. Essentially, we just need to answer three basic questions:

- 1. What is happening and where is it going?**
- 2. What do we have going for us (our capabilities)?**
- 3. What can and should we then do to achieve our mission?**

We will return to answer these questions throughout this book. Whenever you become lost in detail developing your strategies, remember you are just trying to answer these three questions.

Agreed, to answer these questions requires skill and ability. It is a complex and high level task. Just do not get lost in detail too quickly. Stay high and keep the whole process in view.

There can be so much data and detail that you soon lose sight of the forest for all the trees. That is where models and tools come in. They help to organise our thoughts and analysis.

The strategic manager uses models and tools to help sift through and analyse the vast array of data, to analyse what it means and to devise tailored solutions or strategies.

Strategic models or frameworks are used extensively in environmental or external analysis (our first question above), capability assessment (the second question) and strategy formulation (the third question). Fluency with these models or frameworks is the skill senior public managers need to master in the new world.

But be discerning in your selection of models!

Several leading consultancies have been built on the development and promotion of a model. There are many models and consultancies. There are many problems and needs. So what models and tools to use, and when?

With so many models and tools, which ones are useful in which situation? Which models have substance and which models are fads, furbies or facile?

Public sector managers need the ability to evaluate models and theories and separate the wheat from the chaff; or the neat from the naff. Be wary of the next consultancy promoting a patented procedure guaranteed to solve your problems.

Public sector managers need to develop expertise in a **suite** of tools and techniques. There is no magic bullet or one-stop shop that will solve every problem and issue. Rather, the expert strategist chooses the most appropriate tools for the situation and task at hand. This will depend on what the issue is and what data and resources are available.

The more tools in which you are competent, the more applicable and rich will be your analysis and strategic decisions.

To paraphrase Mark Twain [Samuel Clemens]: *“when all you have is a hammer, you tend to see every problem as a nail”*.

The issues facing the public sector today are more varied than just a nail waiting to be hammered. Strategic analysis is highly complex due to:

1. The vast arrays of variables and their many sources: we need to know about sociological trends, markets, our staff, competitors, stakeholders, technology, legislation, the economy and much more. The analyst needs to scan both the external and internal environment.
2. These variables are not separate or discrete but interrelate with each other. The mathematical permutations are immense.

3. The multi disciplinary skills and knowledge required to understand and assess these variables. The required skills include psychology, finance, accounting, organisational design, operations, marketing, legal, technology and more. While not needing to be an expert, the strategic analyst needs enough understanding of all disciplines to take them into appropriate consideration.
4. Strategy is not played in a single point of time but runs over time. This allows reactions by other parties to your strategy and the need to adjust and hone strategic plans in response – yet another dimension of complexity.

As well, we seek some creativity and innovation in our strategies to give us that unexpected edge, to go beyond expectations.

As Sun Tzu wrote: Do not repeat the tactics that won you a victory, but vary them according to the circumstances.

*He who can modify his tactics in relation to his opponent and thereby succeed in winning, may be called a heaven-born captain.*

The process is not purely linear, even though it is usually taught in that manner. We do not simply progress from

Step 1: analysis of the environment; to

Step 2: assessment of internal capabilities; to

Step 3: formulation of strategic choices; to

Step 4: evaluation of strategies based on risk, return and fit.

Instead, the process is iterative with feedback loops. These steps must be seen in the context of missions and goals as guiding principles. For example, we may arrive at Step 3 to formulate strategies and find that there is not a viable strategy to achieve our mission given our current capabilities. So either loop back to adjust the mission to be more realistic or else build more appropriate capabilities.

After reaching a viable strategy, you then need to be capable of implementing it with monitoring and adjustment as required.

Further complexity is due to our operating with incomplete data or uncertainty and with some ignorance.

Exogenous or external factors of “chance” can often overwhelm our analyses and strategies. Imagine how New Zealand would fare if mad cow disease suddenly ran rampant there and devastated its dairy industry. Swine flu and its rapid spread via airline passengers are giving new meaning to the phrase *pigs may fly*. Shocks do happen. They are called shocks because they are sudden and unexpected.

The numerous variables and disciplines needed to be considered in strategic analysis over extended time periods and the rapid pace of change can make analysis bewildering.

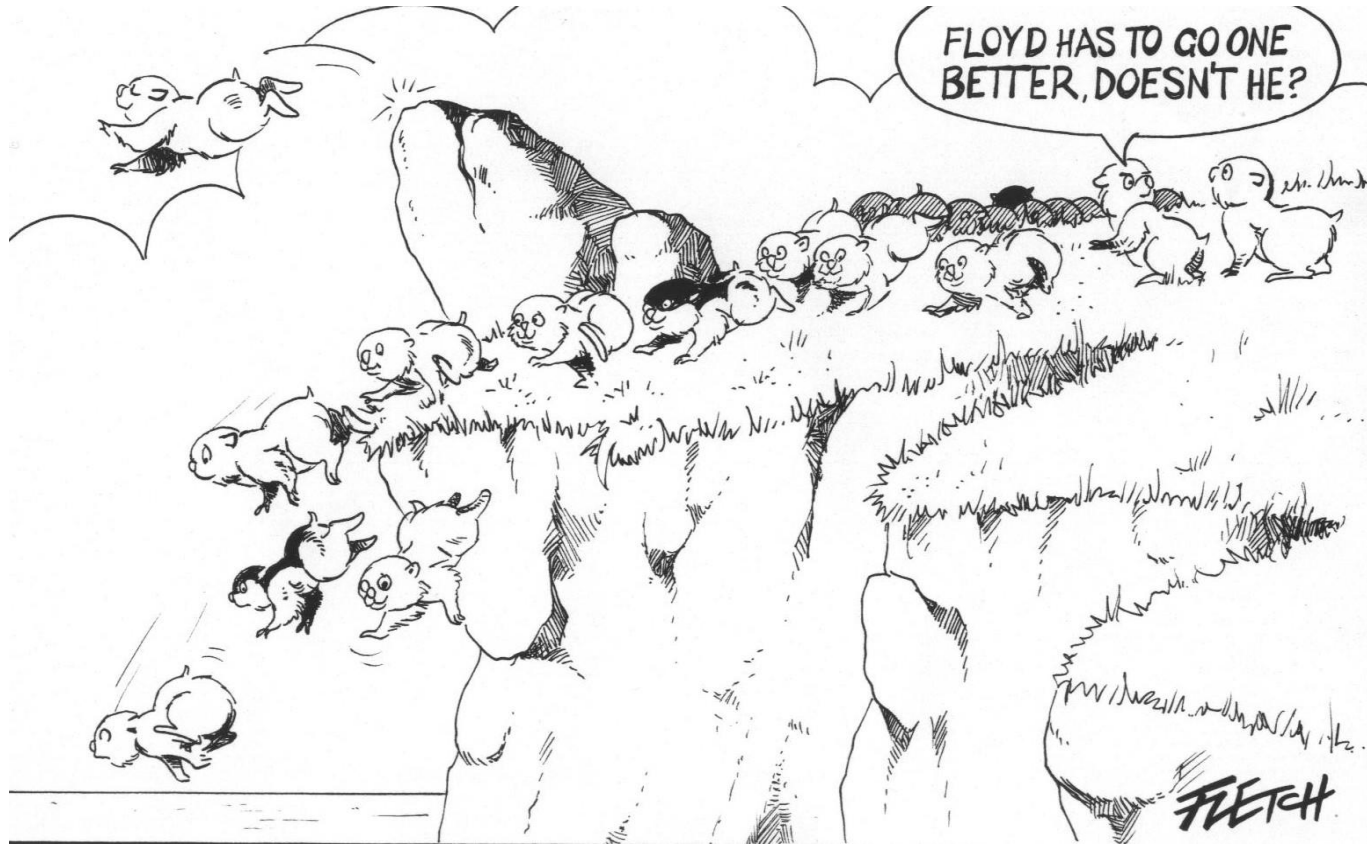
Finally, the analyst needs to take a **holistic approach**. Each factor cannot be appreciated in isolation but in its context of how it interacts with all the other factors. We work in an interactive **system**: whether it is a socioeconomic system; political system; business system; ecosystem; or some other system. Indeed, the world now needs to be considered in terms of how each of these systems interacts with each other system in a total integrated system.

Such immense complexity is why we need to use and understand models and frameworks. They describe systems and interactions rather than just being a checklist.

Models and frameworks are **tools to simplify** the analysis as well as acting as **checklists** to ensure the important points and issues are not missed. This is the benefit of the tools.

Gain fluency in useful models and know when to apply them. You can then become Sun Tzu’s “heaven-born leader”.

We want to **lead** and not blindly follow each other like the mythical lemming suicide run depicted on the next page.



It is a Disney myth that lemmings commit mass suicide jumping off a cliff. But we do see managers blindly follow myths or fads. Some might do it with more style, but the end result remains the same. Be a leader not a follower.



## **Key Points**

- 1. We use models and theories to help us simplify our analysis of what is really a complex, interrelated and bewildering world.**
- 2. The models are just tools to help us answer our 3 fundamental questions:**

**What is happening and where is it going?**

**What do we have going for us (our capabilities)?**

**What can and should we then do to achieve our mission?**

- 3. We use whatever model(s) help in the situation given the data available and our needs.**
- 4. Professional managers develop fluency in a number of models to ensure they have the right tool for the job (not just a hammer).**
- 5. Tools and models help simplify the vast array of data and help us to make sense of it.**

### 3. Overview of Strategy Development

As seen in the previous chapter, strategic analysis and decision making are complex functions for the senior manager. It is not a simple, step-by-step process to follow.

Lest we become lost in the detail too quickly, an overview of the basic process is shown below. This is done to gain a quick overall appreciation of the full process. In the next chapters, we will return to each component in more detail.

Strategic analysis and decision making positions us in the medium to long term to best achieve our mission and goals with limited resources. It is a key task of the senior manager or executive in the public sector.

Our view of the scope of strategy is:

**It applies across a broad spectrum between mission and action.  
It is the analysis of the situation and forecasting of direction.  
It is then the formulation of those actions that will best achieve the mission or goals.**

#### 3.1 Vision, Mission and Goals

We start one step before the actual strategic analysis: with the mission of the organisation. The vision is an even higher level view of the organisation but it can be rather esoteric.

The goals articulate the mission in more stringent terms. Later, when we move to strategic planning and implementation, we will further detail the goals with measurable objectives.

The mission and goals are needed for guidance and focus and as a benchmark to determine success. We “end” with the implementation of the strategy – strategy is wasted unless implemented.

It is desirable to have some mission or purpose as a guiding principle to action.

This mission usually needs to be detailed into constituent goals and then measurable objectives. For example, companies have traditionally had shareholder value as a guiding mission (at least if agency theory applies). This shareholder value mission has often been detailed into set targets for return on equity, growth targets for earnings per share and so on.

For a public sector agency, the mission has far more importance and power than in the private sector. Here we do not have an implied mission of shareholder value.

The mission not only guides the agency but leads to the measurements of determining achievement.

We need a clear mission or mandate for our department, agency or whatever public organisation we are running and probably also for each program. In the public sector, the mission should be a real and powerful tool.

Example of Using the Mission: Landcom  
Sean O'Toole was the founding CEO of the government land development agency Landcom. He took Landcom to be the outstanding land developer in its State, the envy of private developers. Whenever there was difficulty in deciding a policy conflict, Sean would refer his staff back to the Mission for clear guidance. It clearly guided what the agency would do and, just as importantly, what it would not do. This saved much debate.

### **3.2 External or Environmental Analysis**

This is the formal terminology for our first strategic question: What is happening and where is it going?

We begin by understanding what is happening in the environment in which we currently operate, and more importantly, to **forecast** what the environment will be like in the future.

We try to understand major socioeconomic trends and then we become more detailed as to what is occurring in our local environment – either geographically local or within our sphere of operations and expertise.

### **3.3 Internal or Capability Analysis**

This is our second question: What do we have going for us? We need to understand our capabilities (and the comparative capabilities of others if we are in a competitive environment). We need to know what we can do well and what we cannot do. If we need more capabilities, what will it cost us in terms of resources and time?

### **3.4 Develop Strategic Choices**

This is first part of our third question: What can we do?

From the synthesis of the environment and where it is going and given our capabilities, what are the strategies we could pursue to achieve our mission? Generally, the sooner we undertake the analysis and act, the more strategic choices that are open to us. As we delay, **degrees of freedom** tend to narrow.

### **3.5 Select Appropriate Strategies**

This is the second part of our third question: What should we do?

From our strategic choices, which ones best fit our capability, have the most chance to succeed and cost the least in terms of resources (i.e. efficient) and have the more manageable risks? If a suitable strategy is not available, do we need to spend more resources on building capabilities?

Perhaps our mission is unattainable and needs to be revised (the iterative process described earlier).

### 3.6 Plan and Implement

We now move to detailed plans even down to budget level and operational tactics. This will include timetables and responsibilities assigned.

Finally, strategy is useless unless implemented. We need to act. Then we collect feedback and monitor and adjust the plans accordingly.

The schematic for processes is shown below.

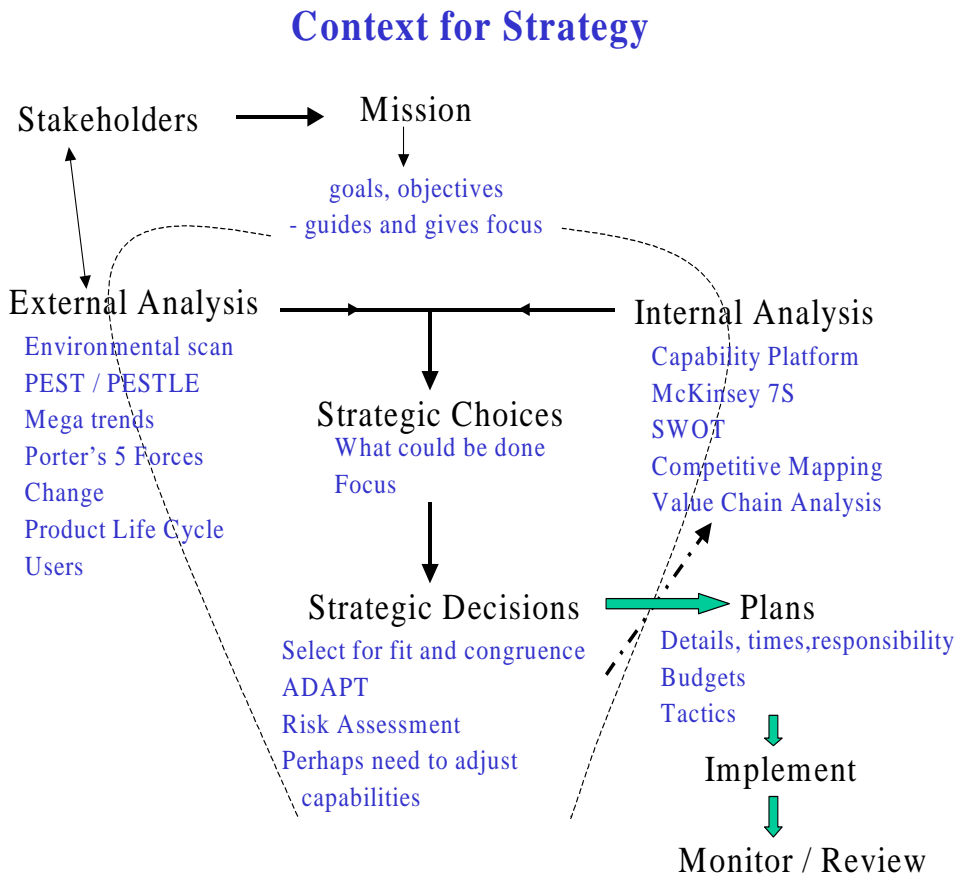


Figure 3.1 Context for Analysis and Strategy Formulation

Our mission leads to the goals and objectives. The purpose of the strategies, plans and actions is to give us a more reasoned chance to achieve our mission and its goals and objectives.

### 3.7 A Note on Reality

Reality is really complex. It is multidimensional, including the dimension of change over time.

The value of analytic and strategic models is that they allow us to synthesise reality into a simpler framework (or at least a checklist) that is usable and understandable.

Models also enable our analysis to proceed in a timely manner. To conduct complete analysis of our environment and capabilities would be self-defeating. By the time the analysis had been completed, so much time would have passed as to make much of the analysis obsolete. We will return to this decision-making with incomplete analysis shortly.

But a **warning!**

Our models and frameworks are **not** reality. We need to keep in mind the limitations of our models and constructs.

Karl Weick, a professor at the University of Michigan, has been writing for years about how organisations try to make sense of their surroundings and how they make decisions.

He shows how our models and constructs colour our view of reality. *“Managers construct, rearrange, single out, and demolish many “objective” features of their surroundings. When people act, they unrandomize variables, insert vestiges of orderliness, and literally create their own constraints.”* [Social Psychology of Organizing, p.243].

The “Lens” concept is similar. Depending upon which professional or personal lens we view the environment, we will be biased in what we see and value.

Theodore Levitt as far back as 1960 [[Harvard Business Review Classic](#)] warned of the power of our definitions in a paper titled Marketing Myopia. The US Railroad companies defined their industry as the railroad business and continued to act accordingly until they were put out of business by the trucking companies – they were really in the transport industry!

Management has been dominated by a focus on decision-making and the concept of strategic rationality. But the rational model downplays the complexity and ambiguity of the real world.

Even economists have finally abandoned their central construct of “*rational man*”. This mythical being, who made rational or logical choices, has been finally supplanted by more complex psychological models.

As an example, George W Bush had two major economic stimulation initiatives during his presidency. One was promoted as a stimulus package and the other as a tax cut. Essentially, the two policies were very similar and put much the same amount of money back into the pockets of similar taxpayers. However, people were far more likely to save the tax cut and more likely to spend the stimulus package, apparently influenced by the names promoting the policies. Psychology outweighed rationalism.

### 3.8 Incomplete Data

Related to the complexity of the real world, is our impossibility to have complete information. Weick [in [Sensemaking in Organizations](#)] looks at the response when faced with conflicting and voluminous information. Most organisations respond by seeking more information. This can often lead to no decision being made at all: **paralysis by analysis**.

No decision is in fact a decision: a decision to do nothing or to maintain the status quo. Unfortunately, as it is made by default, only by chance would it be the optimal decision.

Weick argues that ignorance is not the problem. Instead of gathering more data, you should refer back to principles (mission), values and preferences to help make a choice. Weick says we need to learn to live with ambiguity

and uncertainty in trying to make sense of our environment – he calls it **equivocal**.

The comment on falling back on more data is echoed by Wernher von Braun (right), German and later US rocket scientist:  
*“Research is what I’m doing, when I don’t know what I’m doing”.*



Weick further argues that there are advantages to operating in chaotic systems. Authority needs to be distributed rather than centralised and decisions need to be made faster and be more prone to revision. It may also require organisational discrediting: turning your back on what has worked in the past; to rid yourself of hubris - arrogance borne of pride - and blind spots. It may also mean that we need new skills in managers or new managers! Weick espouses: *“stamp out utility; complicate yourself.”*

Defending the status quo is “old” public service thinking. Even if past practices or decisions were correct, the rapid changes in the world today are unlikely to leave such practices or decisions as optimal in the present and even less so in the future.

Modern competitive intelligence advocates a similar posture. In the infancy of competitive intelligence consulting assignments, more than half of the effort was spent gathering data. Today, less time is spent on gathering data – typically only 20% of the full task. Proportionately more time is not necessarily spent on more synthesis of the data either. Instead, more time and energy are now spent on seeking **insight**: what does it all mean and what are the consequences?

Colin Powell, former chief of staff for the U.S. Army and former Secretary of State put it:

*Part I: “Use the formula  $P=40$  to  $70$ , in which  $P$  stands for the probability of success and the numbers indicate the percentage of information acquired.”*

*Part II: “Once the information is in the 40 to 70 range, go with your gut.”*



However, in the same “Leadership Primer” Powell goes on to state:

*“Never neglect details. When everyone’s mind is dulled or distracted the leader must be doubly vigilant.”*

*“Strategy equals execution. All the great ideas and visions in the world are worthless if they can’t be implemented rapidly and efficiently. Good leaders delegate and empower others liberally, but they pay attention to details, every day.”*

### **3.9 Final Note – The Three Questions**

Complexity is part of life. It does not mean we should retreat from reality. We need to be aware of the complexities of our environment but we also need to focus on the key points and gain some insight and make decisions. We need to simplify reality enough in order to make timely decisions that are likely to “be in the zone”.

Missions or goals help set our area of focus. They are the criteria against which we test our actions. Yes, we may need to raise our heads sometimes to avoid excessive myopia, but we still need to act within our sphere.

In the end, strategic analysis and strategy formulation require us to answer three basic questions

Our questions are:

- 1. What is happening and where is it going?**
- 2. What do we have going for us (our capabilities)?**
- 3. What can and should we then do to achieve our mission?**

Whenever complexity threatens to overwhelm you, remember that you are just trying to answer these three questions.

These are the questions we explore and show how to answer in the following chapters.

We use whichever models or frameworks that help to **guide** us or act as **tools** in the particular circumstances.

But the models and frameworks are only guides or tools and we need to bring our own intellect and analysis to the specific issue. They are tools in our hands and not prescriptive masters.

Then, we design our unique strategy and plans to meet our unique circumstances and needs.

## **Key Points**

- 1. Strategy lies between our mission and the actions we take to achieve that mission. It is the analysis, decisions and plans that lead to results.**
- 2. We use models and theories as tools to help simplify and understand what is happening in a timely manner. But we need to remember that our analysis is only an approximation of reality.**
- 3. We normally have to work with incomplete data. It takes too long and is too expensive to have all the data we would like.**
- 4. We must accept working with a reasonable level of uncertainty. Deferring a decision in order to obtain more data is generally a bad decision.**
- 5. In today's fast world, it is self defeating to seek all the information in any case. By the time we gather it, much will be superseded anyway.**

## 4. Big Picture of the Strategic Processes

### 4.1 The Scope of Strategy

We will shortly go into detail of each of the steps in developing successful strategies.

First, you need to have a picture of the entire process - a holistic view. While we may learn strategy in steps, this is not how it actually operates. It is a complete interactive system with feedback loops and iteration. Therefore, before we drop into details of the processes, here we provide a quick overview or summary of the entire approach.

In strategy we seek to answer our questions:

- **What is happening and where is it going?**  
(Environmental Analysis)
- **What do we have going for us or our capabilities?**  
(Internal Analysis)
- **What can and should we then do to achieve our mission?** (Strategic Formulation and Decision Choices)

(The terms in brackets are the more impressive formal titles)

Strategy lies across a spectrum with the mission at the beginning and plans and actions at the end. Strategy fills the analysis and decisions in-between. We have various tools or models to aid us in answering the questions.

The points along the spectrum are not discrete. There is overlap and some blurring of roles. As well, it is not unidirectional: there is feedback at times.

For example, our preferred strategy may require us to revisit the capabilities covered in the internal analysis to build or enhance some capability. Alternatively, we may need to modify the mission if it is deemed unachievable under current constraints.

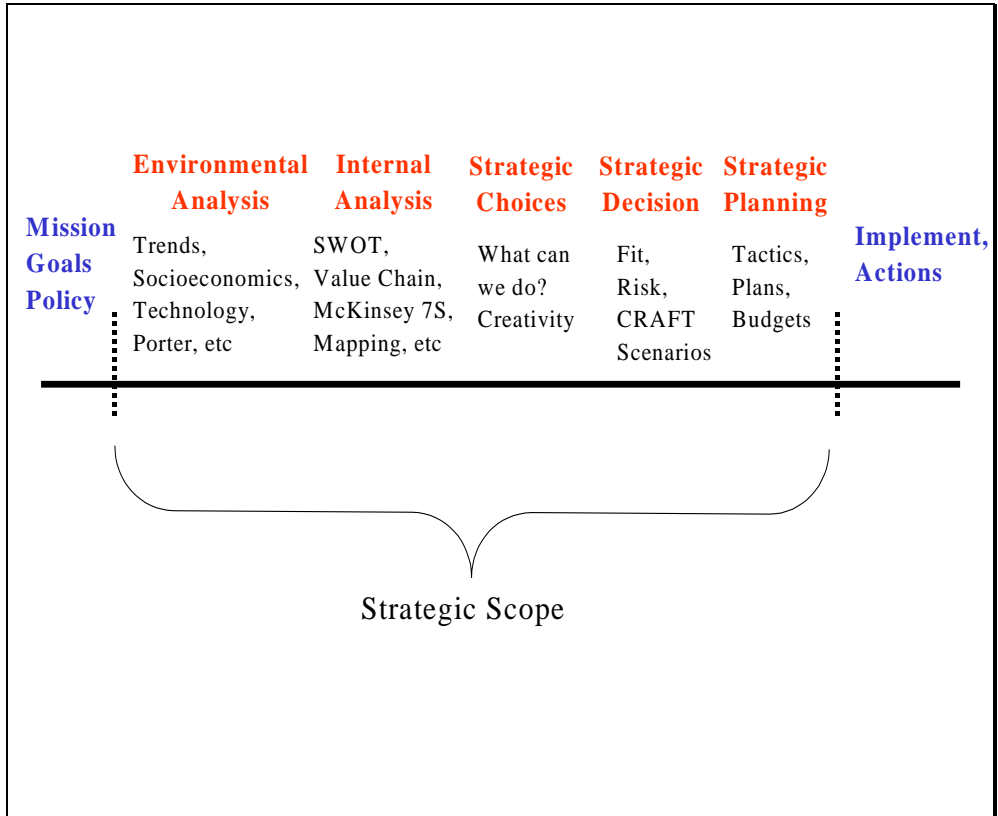


Figure 4.1 Scope of Strategy

The interrelationships of the process are more complex than shown by the strategic scope spectrum above.

An overview map of the complete process is shown below.

The first section on the Mission and its acceptance by stakeholders is far more important and detailed in public sector strategy than it is in private sector strategy. After that, the processes are very similar between the public and private sectors.

However, there are still operational differences, in particular around competition, having clients pay and resource constraints.

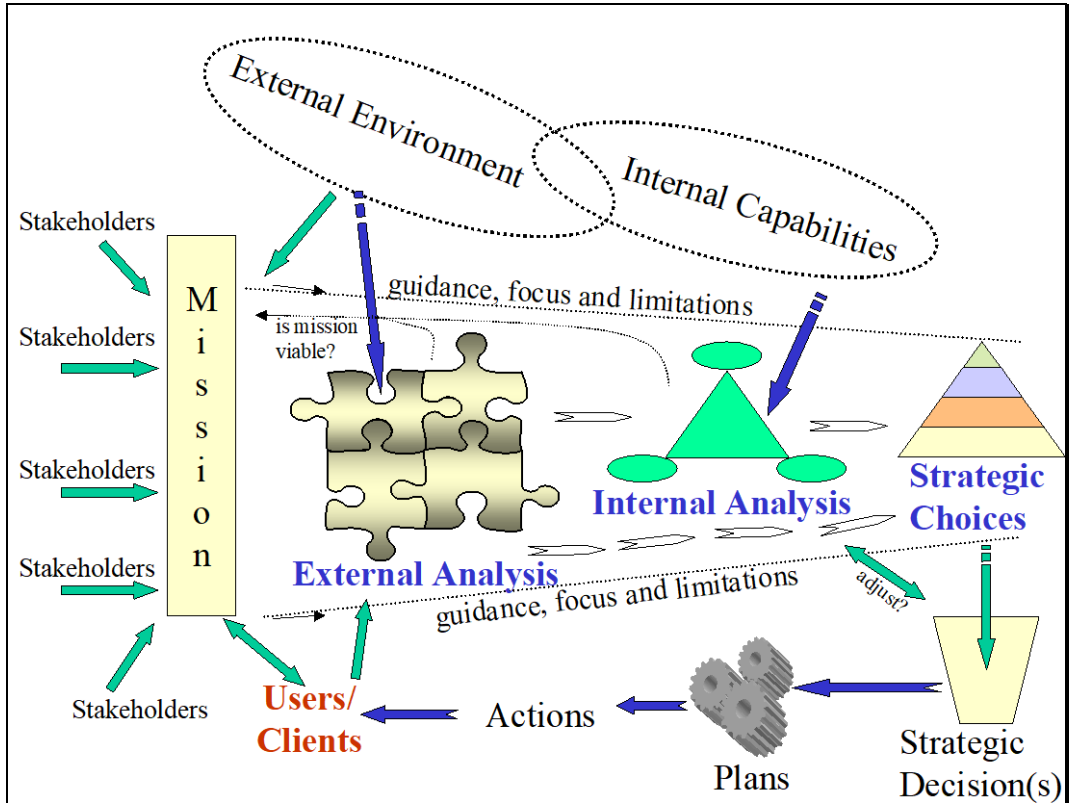


Figure 4.2 Strategic Process Overview

Even though highly summarised, the process map above is still “busy”. So we will work through it in steps or stages in the following chapters.

It should be remembered that strategy is a holistic process. The strategist may analyse sections at a time, but eventually, must considered the process as a whole system. It all has to come together in the mind of the strategist.

The methodology is also partly heuristic with the use of past examples and experience to discover new insights and new answers. This makes strategy both challenging and interesting.

## **Key Points**

- 1. The full process of strategy that is used to answer our 3 fundamental questions is long and complex.**
- 2. So we break it down into discrete steps.**
- 3. In reality though, the strategist needs to remember that all the parts are interrelated and there is not just a simple linear path. We may need to back track to our mission or build new capabilities in order to have a viable strategy.**

## 5. Step 1: Mission and Goals

### 5.1 Setting the Mission

Setting the mission for a public sector organisation is more critical than for a private sector operator. In the private enterprise sector, the Mission Statement is only given a fleeting consideration or it may not even exist. The business will just want to survive and prosper with good returns.

In the public sector, considerable thought and time are spent articulating a powerful mission statement. It can and should be more than “pretty” words.

Not only does the Mission define the organisation’s *raison d’etre*, it also acts as an important guide and focus to activities. Finally, it will be a starting point to set the benchmarks to evaluate performance – especially when there are no comparative or competitive yardsticks.

It is desirable for the organisation to undertake some “market research” to identify key stakeholders and determine what they want from the organisation.

Such market research is typically an “estimation” of what is wanted rather than a definitive statement.

We will also theorise on what we consider to be a logical role for our organisation given the perceived needs of clients and what is offered by other organisations.

Theorising (even common sense) is necessary because the “market research” of stakeholders is often tainted or biased. There are difficulties in satisfying all stakeholders with our mission including:

- ❑ Multiple stakeholders.
- ❑ Many stakeholders are imprecise in articulating their wants and there is the lack of market forces and purchasing data available that is available to private sector organisations.



- ❑ There is rarely a pricing mechanism to quantify and test demands. Often the goods and services are offered “free” or discounted so that market forces are not intended to provide resource allocation discipline.
- ❑ Goal conflicts may arise between stakeholders which will impede a common, accepted mission. Goals may be inconsistent or even mutually exclusive between some stakeholders.
- ❑ Stakeholders do not “vote” proportionately with some lobby groups more concerned than others. While overall utility may demand a certain mission, it may be more politically expedient to accede to the demands of the vocal groups and downplay or ignore those less passionate, less powerful or less likely to revolt.
- ❑ Ambiguity in the mission opens the door to political opportunism and displacement of the mission or its goals.

## **5.2. Suggestions to Simplify Determining the Mission**

Some guidance that may assist in determining the mission includes:

### **Group or Align Stakeholders**

Too many stakeholders will complicate the process and raises the chances for conflicts with goals. Even ignore some minor stakeholders! You cannot please everyone.

Simplifying the process by grouping (or segmenting) stakeholders is desirable. Are there groups of stakeholders who want at least similar outcomes? If so, can we offer them a generalised package that meets most of their requirements and have them act with one voice?

Segmentation is a classic marketing tool to simplify many customers into groups or segments and make it easier to service them. We then offer each

segment a particular “package” of outcomes that generally satisfies the wants of that group or segment.

Such groupings are not perfect and individuals in each segment may feel less than perfectly satisfied, but you at least manage general satisfaction and can move on.

Aligning stakeholders is a similar process. Although aligned stakeholders may not want similar outcomes or services, they may still have common requirements that can lead them to be grouped in their definition of the mission. For example, disparate groups may be more interested in reducing the budget allocation to the program rather than being interested in the eventual outcome.

Environmentalists and businesses that are able to sell carbon credits may both want a carbon tax, although for very different reasons. At least for the purpose of supporting a carbon tax, these groups could be aligned.

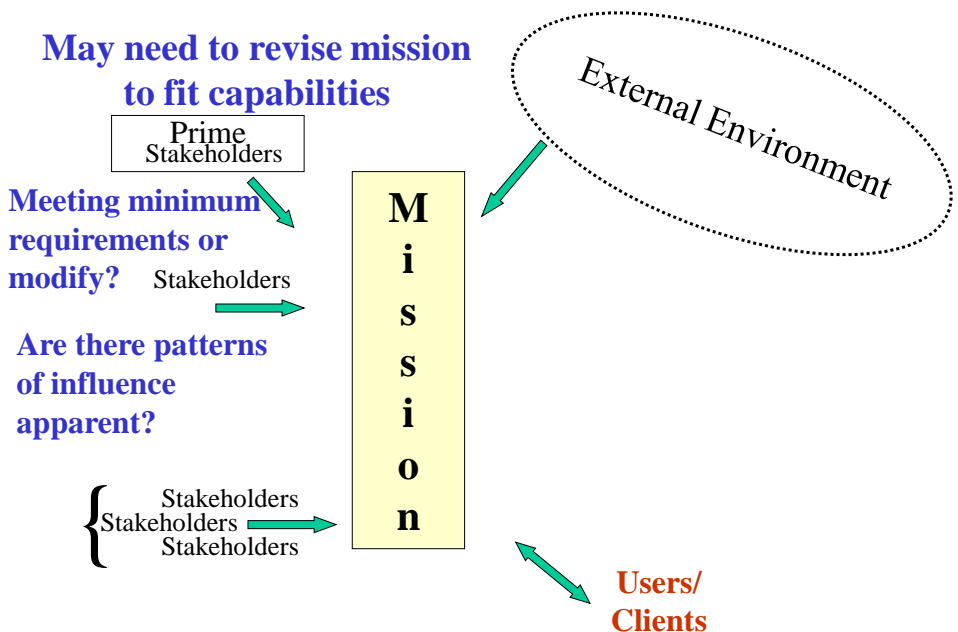


Figure 5.1 Group or Align Stakeholders

## Identify and Satisfy the Critical Stakeholder(s)

Typically, there is a critical or prime stakeholder who must be satisfied to minimum requirements. Whether it is the relevant Minister or the client or a lobby group, this stakeholder and their needs must be identified and satisfied even if not totally fulfilled.

We must either satisfy this stakeholder to at least minimum requirements or else manage expectations on what can be achieved within the present resource constraints.

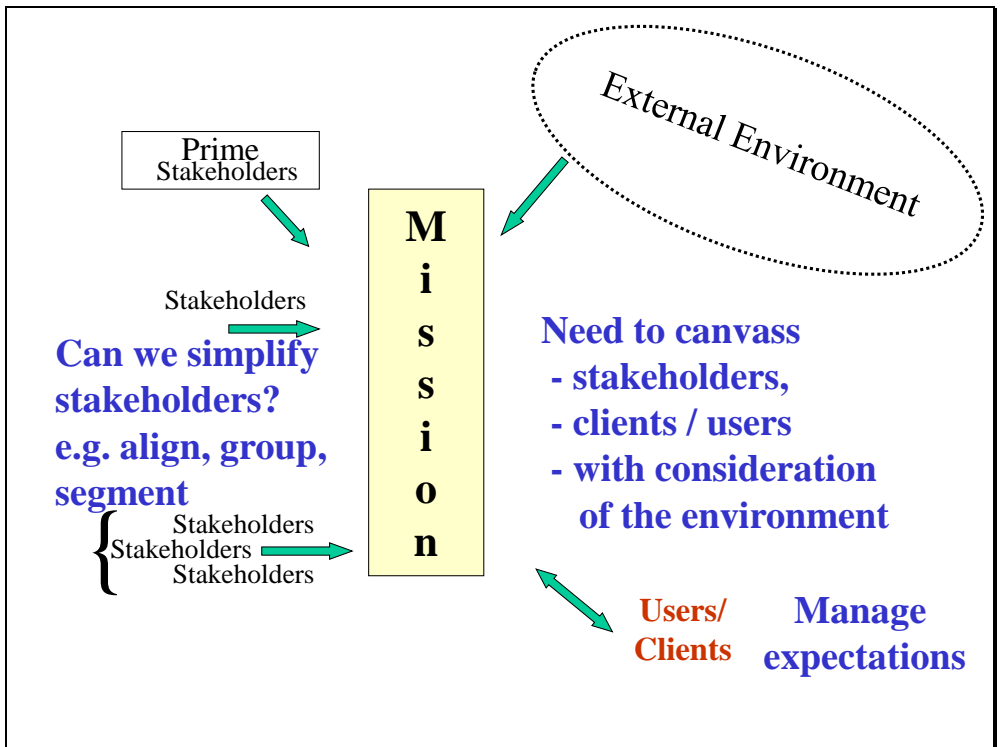


Figure 5.2 Determine Stakeholder Requirements

**Power mapping** is a technique of visually understanding the needs and positions of various stakeholders. There have been several papers from researchers on the topic of stakeholder mapping, including:

- Power-impact grid (Office of Government Commerce UK 2003)
- Power-interest grid (Moorhouse Consulting 2007. Also Mendelow)

- Three-dimensional grouping of power, interest and attitude (Murray-Webster and Simon 2005)
- The Stakeholder Circle (Bourne 2007)

A typical matrix is shown below in which we would enter the various stakeholders that have been identified.

<b>A</b> = High Power & Low Interest	<b>B</b> = High Power & High Interest
<b>C</b> = Low Power & Low Interest	<b>D</b> = Low Power & High Interest

Those stakeholders in Category B would be expected to be our key stakeholders.

### **Canvass and Survey Stakeholders**

A note on surveys and focus groups: they are often flawed.

It is curious that public sector organisations are now doing more surveys than ever, just as private enterprise is dropping them. Survey consultancies are grateful for government departments, hospitals, universities, transport agencies and the like to sustain their businesses.

Apart from the difficulties of designing a valid survey, we have trouble in achieving a real cross section of our clients or stakeholders. For a major event, look at the problems with the 2016 Australian census despite threats of fines for non-compliance

For example, surveys of people in shopping centres have been found not to include many real shoppers. Those willing to complete a survey are more likely bored mall browsers filling in time. The real shoppers brush past the survey takers to get on with their shopping. Researchers have found better quality data by just observing what the real shoppers do.

Likewise, there are biases with focus groups, especially when they are paid. We have “professional” focus group attendees who are likely to provide the response they think the interviewers want in order to be invited to more focus groups.

When the television ratings moved from a diary filled in by the viewer to “black boxes” recording which channels were actually tuned in and when, the recorded audience share for more cultured ABC programs fell and the ratings for more prurient programs on Channel 10 rose. The diary entries had been “coloured” to present a more cultured profile of the viewer.

Observing how clients and other stakeholders react to our programs and services can be more useful (and less costly) than extensive surveys. The observations can be supplemented with some interviews to check on the validity of your observations and to gain some qualitative data.

### **Awareness of the Environment and Capabilities**

It is naive to adopt or accept a mission created in isolation from its environment and the ability of the organisation to fulfil the mission. Otherwise, we are being set up to fail.

Prime Minister Robert Hawke in his 1987 campaign launch famously declared “by 1990, no Australian child will be living in poverty”. This may be an aspirational goal but it was certainly a poorly judged mission for the welfare services of the Commonwealth.

Twenty years later, Hawke admitted the comment was one of his greatest regrets. “It was a silly shorthand thing” he said [The Age, June 16 2007]. The Government did not have the resources, powers, strategies, plans or other capabilities to deliver on this mission and certainly not within 3 years.

The organisation should be proactive in recognising the limits placed by the environment and by the organisation’s internal capabilities. Such limitations should then be factors in the determination of the mission and goals.

## **Marketing and Managing Expectations**

Marketing is far more than advertising or promoting what the organisation does. Marketing should also seek to change the views or preferences of the stakeholders.

This can be done by making stakeholders aware of what can be done or perhaps showing alternatives that had not been previously considered.

Alternatively, we may need to modify perceptions. This is especially useful in having clients determine what is really important to them and what is only secondary.

Yes, we can have a policeman on every street corner but your taxes will skyrocket or you will need to have fewer hospitals, schools and so on. As well, it will not stop cyber crime and fraud.

You should also manage unreal expectations.

The Pedestrian Council of Australia was incorporated in 1996. It has had the one Chairman who also doubles as CEO since inception. Membership is only by invitation of the board! This is hardly a public body. Its stated objectives are naturally about the interests of pedestrians including *“the promotion of walking as a legitimate transport mode”*.

The Chairman is feted by the media for comments on pedestrian issues. The “Council” calls for better deals for pedestrians even if research and Departmental advice is otherwise. For example, see the brouhaha over the decision to remove 2 pedestrian crossings in Goulburn in 2014.

A former Roads Minister in the NSW Government found he was unable to satisfy the demands of Pedestrian Council with any compromise. The Minister eventually refused to ever meet or discuss with the Chairman of the self-appointed Pedestrian Council of Australia as a way of reducing his media profile and lobbying influence.

## **Tightly Define the Users / Clients**

Too many clients or too broad a definition of the clients of the organisation can create an impossible task where nothing can be delivered to a high standard and no-one is adequately satisfied. Segmenting and defining clients is a useful tool for reducing complexity in the services to be provided.

Another approach is to actively define who is **not** a client.

An example from the not-for-profit sector is The Smith Family. When Elaine Henry became CEO of The Smith Family, she did a strategic review of the organisation. The Smith Family was just one of thousands of organisations providing welfare to families in need.

The organisation was also operating in just New South Wales due to the history of its origin.

It was decided for the Smith Family to focus instead on providing educational opportunities to disadvantaged children as a way of breaking the poverty cycle. The mission was restated as: **To create opportunities for young Australians in need by providing long-term support for their participation in education.**

The charity has achieved impressive results from this focus. They also carefully measure and market the results.

Now, The Smith Family no longer saw its role as providing general relief, food packages or clothing to the poor – there were many other organisations better placed to do that. Those people seeking such services were no longer clients of The Smith Family.

Interestingly, the mission was for young Australians, not just those in New South Wales. If the mission had power, it also meant that The Smith Family should expand to be a truly national charity, which it did.

On the other side of the ledger, such a clear focus on education for children across the nation, gave the charity a focussed appeal to national sponsors interested in this focus.

### 5.3 Articulating and Marketing the Mission

The mission statement should be real and it should have power. It should be a force that defines what the organisation does, and just as importantly, what the organisation does not do.

The mission statement should preferably be short: one or two sentences. It should be readily remembered by staff, key stakeholders and clients. This is part of its marketing. It should also be believed and followed in deed and action by the senior executives: is what we are doing, working towards the mission?

**Examples:**

Building Materials Company: To be the lowest cost producer of building products in Australia.

Business School: To provide the best quality education for general management.

Maritime Operations of the Navy: Have the capability to readily meet Australia's maritime defence.

Department of Corrective Services NSW: Manage offenders in a safe, secure and humane manner and reduce risks of re-offending.

Mission statements can be powerful in focusing actions. The building materials company above would not expand overseas and would not acquire a coal mine (unlike Boral, CSR, etc). The business school would not cut its fees and standards to chase more enrolments but would make decisions on whether or not the action improves quality.

Maritime Operations of the Navy would not develop long range capability to operate in the Red Sea. The Department of Corrective Services would not only seek a safe environment for inmates and staff but also would introduce case management and rehabilitation programs, rather than just securing the inmates humanely.



## Case Example: Using and Marketing the Mission: NSW Fire & Rescue

The New South Wales Fire Brigades (NSWFB) was created in 1910. Greg Mullins was appointed as Commissioner of NSW Fire Brigades on 4 July 2003



Coming through the ranks, Greg added skills in management with a Master's degree in Management and courses in Strategic Leadership. He also spent time in the private sector, managing a major international project in 1998. These are aspects of the merging skills of senior managers in the public and private sectors.

In January 2011, NSWFB changed its name to **NSW Fire & Rescue**. (Queensland soon followed suit.) This is NOT just a cosmetic change. It is very clever use of the mission by Greg Mullins for marketing the role of the organisation to all of its stakeholders (Government, community, and staff) and to other agencies.

It recognises the changing complexity of fire services such as dealing with hazardous chemicals and having specialist skills and equipment in accidents, including road accidents.

The stated purpose fits within (is congruent with) the State Plan:

Our purpose is to enhance community safety, quality of life and confidence by minimising the impact of hazards and emergency incidents on the people, environment and economy of NSW.

This mission or purpose stakes a very clear claim for the Fire Services (sorry, Fire & Rescue Services) when dealing with overlapping agencies such as SES and Police. In NSW, Australia and overseas, there have been many instances of competition, even conflict, between Fire and Police personnel on demarcation of activities at emergencies.



Greg Mullins used the Government's acceptance of the mission and name change as a powerful play of ascendancy over the Police. It also sends a clear internal marketing message to staff.

The change of name and modification of purpose has been used very cleverly to position the organisation. It has been carefully and deliberately done.

## **5.4 Vision**

Some organisations go one level higher than the mission statement and have a vision. This is some grand long term view of the world and the place of the organisation in it. It is not essential and is often at the warm and fuzzy end of the scale.

The Department of Corrective Services had a Vision of: "Contribute to a safer community through quality correctional services. It was boldly stated on all its promotional material.

By comparison, the Mission and Vision of the then Roads and Traffic Authority (RTA) of NSW was more difficult to find (you needed to hunt in the Corporate Plan). As well it was very vague:

### **Our vision**

A sustainable, safe and efficient road transport system.

### **Our mission**

Delivery of the best road transport outcomes balancing the needs of public transport passengers, cyclists, pedestrians, motorists and commercial operators.

Instead of attention to the mission, the RTA instead highlighted its responsibilities followed by inputs rather than outcomes (staff numbers, budget allocation, kilometres of roads, number of offices and registries, etc).

The responsibilities were listed as:

- Managing the road network to achieve consistent travel times.
- Providing road capacity and maintenance solutions.
- Testing and licensing drivers and registering and inspecting vehicles.
- Improving road safety.

Commuters would perhaps have preferred improved travel times rather than the consistently slow travel times.

Also, it seems that there was little to stop the RTA from taking huge up-front fees from road infrastructure providers and then harming motorists by reducing their ability to use the public roads, and instead forcing them into the private operators' facilities! [See the Cross City Tunnel example later].

The RTA compromised much of what it was supposed to achieve by chasing up-front fees from privatised roads. Public rage and criticism followed. Stakeholder clients were unimpressed and let the Government know it. With a change of government in 2012, it was not surprising that the RTA leadership was changed; the RTA lost much of its autonomy and was rolled into a larger organisation that included maritime operations.

## **5.5 Goals and Objectives**

These terms are sometimes used interchangeably. Here, we define goals as the break-down of the broad mission into achievable, desired outcomes.

Objectives are the measurable outcomes of goals to determine whether the goals are achieved.

Both steps are necessary in order to move from the broad and aspirational mission to outcomes that can be measured and thus need plans and action to achieve.

The hierarchy of goals, objectives and plans is:

<b>Goal(s)</b>	There must be some purpose for the activity to exist.
<b>Objectives</b>	Broad goals are broken down into <u>measurable</u> objectives or steps towards the goals.
<b>Plans</b>	Plans determine the means to achieve the objectives and hence the goals.

To effectively plan, the following are required:

- Know the goals
- Have measurable objectives
- Know your resources
- Understand the operating environment

## 5.6 Organisational Hierarchies

Most complex organisations have various levels or tiers and several activities.

For example, a department may have several subsidiary sections or units. Within each section there may be programs and other functions. Within each of these functions there will be several activities.

Every level of the organisation will have its own goals and objectives and plans.

These goals, objectives and plans may not be specified but they will exist. It is better to have them visible and agreed than implied!

In setting the goals and objectives for the various levels, the key rule is that they must be **consistent or congruent** with the goals and objectives of the level above. In this way, the overall goals of the organisation will be achieved. Actions at lower levels of the organisation hierarchy are tested to ensure they are helping to deliver the higher order goals further up in the hierarchy.

**Consequently, it is necessary to first work out the goals and objectives at the very top and then cascade down the hierarchy.**

Often senior managers complain about the lack of direction and focus from their subordinate managers and departments. In nearly every case, the problem is that the senior managers have yet to clearly articulate their goals and give direction. Managers at the lower levels of the organisational hierarchy are largely left to second guess and assume about the goals of their senior managers.

Senior managers need to clearly state the goals and objectives of their level; communicate and market these goals; check and test that they are understood; and then follow up to see that actions are occurring to deliver the goals and objectives.

## **Strategy Hierarchies**

Strategy can be played out on several levels, depending on the where in the organisation we are operating. As well, strategy is dependent on the time frame.

**“Grand” strategy** needs considerable time to be played: say 3 to 5 years or more. Grand strategy is about the overall direction and mission of the entire organisation. It will be comprised of many sub-strategies and plans: strategies for various departments and programs; strategies for organisational development; strategies for community engagement; finance strategies; people strategies and so on.

All these supporting strategies need to be congruent with the grand strategy. As with goals and objectives, it is difficult for lower order strategies to be developed without first understanding the grand strategy of the whole organisation.

At the other end of the time scale, in the short term, we are generally left with micro strategies or **tactics** that are steps or “game plays” towards achieving one of the component strategies. Such micro strategies or tactics

may frequently be reactions or counters to changing circumstances. They will have short lives and change often.

It is inadvisable to change the grand strategy often.

Too much change confuses our constituents (staff, clients and other stakeholders) and does not allow enough time for the strategy to take effect. We are on a long journey with the grand strategy.

However, we may need to take detours at times when obstacles appear or any easier path is shown – these are the micro strategies or tactics. In a changing world, while we hesitate to overthrow our grand strategy, it may need **flexibility** and modification at times.



With the rapid pace of change today, strategy no longer has the luxury of “set and forget”. Truly, some corporations had 100 year plans in the 1980’s. Some, like Mazda, were shocked when they nearly went bust within a few years of making their plan.

Modern strategy is more like the figure on the left. We are facing rocky ground ahead and may have to detour several times.

But we still need a rough map (flexible plan) and a view of what is ahead. Otherwise we have little chance of reaching our desired destination.

Nonetheless, if our grand strategy proves to be wrong or if circumstances change so radically that the strategy is no longer viable, we must change. Holding on to an obsolete strategy is a recipe for disaster.

Change before you must.

The hierarchy or levels of strategy are depicted below.



Figure 5.3 Levels of Strategy

## 5.7 Setting Goals

Much angst can arise in setting goals. Goal setting is one of the fundamental tasks for a senior manager. It should not be delegated.

Goals are not a wish list. They should be the **few** ultimate aims of the organisation or activity. Too many goals will cause effort to be diffused, increase confusion and perhaps create incompatible goals.

Goals for a family welfare department may be:

- Provide time relief for families in stress
- Be available as a child counselling service
- Expand into remote communities

Further down the hierarchy, other functions will set their goals. For example, the time relief for stressed families function may have goals of:

- Gain recognition of program offerings by welfare groups dealing with stressed families
- Develop a program for awareness of child abuse
- Set up a “holiday” house for those needing time out
- Have a 24 hour counselling call service
- Train counselling staff

These goals are consistent with the overall goal of providing relief to families in distress.

## 5.8 Objectives

Goals are the broad, long term aims of the organisation or function. But goals are usually so broad that they lack quantification and measurement.

We want to quantify targets so that we can measure whether or not we are meeting those targets. These “quantified goals” are the objectives. Each goal should have at least one quantified objective and it may often need more than one.

A maxim of business is: **what gets measured, gets done.**

If you want something done, have it as a measured objective.



An objective is an “end towards which efforts are directed; something aimed at” (Macquarie Dictionary).

**Consistent** objectives for obtaining the goals of the family welfare department would be:

Awareness of the programs in over 50% of families in the local area within 1 year.

Provision of “time out” relief to over 100 families per 6 month period within the next 2 years.

Establish 3 holiday hostels to accommodate 6 families per week by the beginning of next year.

Launch programs in 6 remote communities within 3 years.

Other objectives would be developed for the other goals.

Further down the hierarchy, the remote communities or child counselling functions would also develop objectives.

All of these objectives can be measured. Note that they all have a time frame. At the call of time, we can definitively state whether or not the objective has been achieved.

The objectives are tighter than saying we will consider having a forum to discuss a carbon tax sometime after the life of the current parliament.

Sometimes the acronym of **SMART** objectives is used although the terms sometimes vary.

To be SMART, objectives should be:

- S** trategic - aligned to achieving the mission and goals
- M** easurable - sometimes the term is Motivational
- A** ctionable - there is something to be done
- R** elevant - pertinent to the goal they are working towards
- T** imely - time frame or end date to which we are accountable

It can be difficult to quantify objectives but it is very desirable. *“If it cannot be expressed in figures it is opinion, not fact”* (Robert Heinlein).

The clearer the objective, the less doubt there is in anyone’s mind about what is to be achieved. When it is time for review, there should be no debate whether the objective has been achieved or not.

Note that in the complex world of the public sector, we may not be able to directly measure objectives. It is simpler in the business sector where we aim to have 25% market share or a return on investment of 12% or launch 3 new products in the year.

Often in the public sector \*and not-for-profit sector) we need to fall back on **indicators** of success rather than direct and absolute measures.

If we want remote communities to feel connected to mainstream counselling services then a direct measurement of “feeling connected” may not be possible or only available via dubious and expensive surveying. So instead, we may state that if everyone with a phone has access to a 24 hour counselling call centre or that counsellors will be in each remote centre for one day each month, then we have indicators that there should be some connection to improved counselling services.

With indicators, we usually need some theoretical relationship between the indicator and the desired outcome. In the above example, it seems logical that providing 24 hour phone access and periodical face-to-face meetings should lead to improved feelings of connection to mainstream counselling services (providing people know about the service).

As another example, most Police Services have missions along the line of “safer communities”.

But what is “safer”? How do you measure it? Is it less crime being reported or more crime being solved or just people feeling less threatened?

With such a broad and ill defined goal, we need to suffice with **indicators** rather than direct objectives. If we achieve the indicator, it is likely that we are moving towards achieving our goals. Indicators of success in a

campaign against amphetamines may be fewer admissions to casualty departments of hospitals or less profitable bikie gangs.

We accept that it is either too difficult or too expensive to directly measure the objective. However, if we have reason to believe that our indicator is linked to the objective, then it may suffice to just see if the indicator is achieved.

**Hints:** Be clever in your setting of objectives.

Do not set so many objectives that there is a loss of focus.

Make sure you have the main outcomes measured. They are sometimes referred to as Key Performance Indicators (KPI's)

Try to avoid needing surveys or other expensive and time consuming measurement methods. An observation that is automatically generated or frequently sighted is better

## **5.9 Outcomes and Friedman Model**

While focus on outcomes or objectives has been part of the business sector for decades, outcomes focus has only more recently gained traction in the public sector.

This is understandable for several reasons. For a start, having multiple stakeholders in the public sector often leads to goal conflicts (whereas the business sector has the clear goal of shareholder value). Consequently, many public sector organisations tend to write vague and broad objectives that are difficult to criticise or be pinned down.

Secondly, and allied to the vague objectives, internal politics and competition for resources can encourage managers to displace the organisation's mission and goals. As well, key sponsors may be able to dictate or displace goals in their favour.

Thirdly, the public sector often provides complex services that are difficult to measure or value. As a result, there is a tendency to instead measure

inputs: how much resources were spent on the activity. This is at best, an efficiency measure, not an effectiveness measure.

There are numerous examples of input measures used: number of hospital beds available; teacher: pupil ratios; dollars spent on welfare housing; number of police; and so on. These do not directly measure effectiveness. At best we hope there is some correlation so that they may indicate results.

Fourthly, rewards and penalties in the public sector often have little correlation to performance. So again, the importance of outcomes is reduced.

However, the tide is turning. The growing demands placed upon public sector organisations and the limited resources available plus the professionalism of public sector management are pushing for greater emphasis on outcomes.

*“Funding decisions are made having regard not only to costs but also the appropriateness, efficiency and effectiveness. By linking budget allocations to performance, the use of public resources is made more transparent.”*

~ NSW Treasury, Financial Management Framework

One feature of this change is that some public sector agencies must now complete a Results and Services Plan (RSP). This sets out what the agency intends to achieve with the resources allocated to it. To date, Results and Services Plans have been inconsistently applied in Government departments and agencies.

An RSP is prepared under “**results logic**”. This links what an agency does (services) to its impact on the community (results).

Much of this premise has been developed by Mark Friedman in the USA, and it is now commonly referred to as the Friedman Model.

The Friedman Model extends the private enterprise model of accountability and outcomes to the public sector. The model focuses on results-based decision-making. Results or outcomes are defined in simple language that all stakeholders and clients can understand. Governments and communities

agree on the desired outcomes. Indicators are used to benchmark the results.

In recognition that it is generally difficult to have absolute benchmarks in the public sector, at least at present, the initial focus is more a trend analysis than an absolute benchmark. Are we getting better? Friedman even grades it a success if we slow down the rate of deterioration (called “turning the curve”). This has echoes of Paul Keating’s J curve when we were supposedly recovering from the “recession we had to have”.

Strategies are put in place to achieve the outcomes. Strategies in the model are defined as “coherent collections of actions that have a reasoned chance of improving results.” [While this is a usable definition of a strategy, it does not really help us devise the strategies].

Results and indicators are about the ends or **outcomes** to be achieved. Strategies and performance measures are the **means** to achieve the results.

The model is mainly a conceptual philosophy of the need for an outcome focus (and community input) and the desirability of measurement and transparency. It offers some viewpoints on improvement measures. The model does not purport to provide details on assessing the environment or formulation of the strategies.

## **5.10 Management by Objectives**

It may seem that we have created yet another bureaucratic task for the public service manager by requiring the setting of goals and SMART objectives.

While considerable time and skill are required to initially set these goals and objectives, they actually save the manager considerable time and pain and make for a better running department or program.

Once the objectives are set and accepted, then we can manage by objectives. The great management guru, Peter Drucker coined the term **Management by Objectives** or **MBO**.

The investment in time and quality thinking in setting the objectives initially is repaid manifold in terms of releasing time for senior managers to oversee and lead.

The senior manager does not, and should not, micro manage members of staff tasked with achieving various objectives. The senior manager may assist and check but the staff members can now be given scope to do the tasks to achieve the goals. Periodically, the senior manager will check progress on achieving the goals: monitoring.

Setting objectives and measuring performance as to how well these objectives are met has an enormous effect on focusing efforts.

If it is not an objective, why waste time, expense and effort on it?

On the other hand, our business maxim of “what gets measured, gets done” is a two-edged sword. So care must be taken that everything that is essential to be done, is expressed as an objective and is measured. What is insignificant should probably be left aside.

### **Case Example: Reserve Bank of Australia**



The Reserve Bank of Australia is a very good example of smart use of the mission. It is possibly the most successful public sector organisation in Australia!

The Reserve Bank Act 1959 split the central bank roles to the newly created Reserve Bank of Australia while the Commonwealth Bank focused on its commercial banking operations. This was deemed prudent and fair, given the Commonwealth Bank’s competition with private sector banks.

Section 10(2) of the Act, which is often referred to as the Bank’s ‘charter’, says:

‘It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the

greatest advantage of the people of Australia and that the powers of the Bank ... are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to:

- (a) the stability of the currency of Australia;
- (b) the maintenance of full employment in Australia; and
- (c) the economic prosperity and welfare of the people of Australia.'

Alas, achieving these three goals simultaneously became progressively more difficult. Innovations in finance and the growth of non-bank institutions meant the Reserve Bank's capabilities were diminishing. The stagflation of the 1970's proved that economists were wrong in thinking that price instability (high inflation) and unemployment were mutually incompatible.

In effect, the Reserve Bank had to accept it could no longer achieve its stated mission. Wisely, it changed its mission!

Gradually, the Reserve Bank laid the groundwork to sell the idea that it should concentrate on stability of the currency (i.e. low inflation), first and foremost. The Bank argued that low inflation would ultimately aid employment and economic prosperity.

Shrewdly, the Reserve Bank did not set an inflation target that was too onerous, especially regarding the time frame. In 1993, the objective of price stability was outlined publicly by the then Governor, Mr Bernie Fraser, as a rate of inflation which was held to an average of 2-3 per cent over a period of years.

This mission on price stability with a goal of 2 – 3 % on average over the economic cycle was reiterated late in 2010 by then Treasurer Wayne Swan in the next 3 year agreement between the Bank and Treasury. Swan also added oversight of the financial stability of Australia's financial system to the Reserve Bank's mandate.

Just as importantly though, it was emphasised that this added mandate did **not** mean an obligation to bail out a failing bank.

Such an agreement demonstrates clever use of the mission as to what the Reserve Bank **will do** and also what it **will not do**.

The Reserve Bank has actively restated its mission to be something it can realistically achieve given the environment in which it operates. Before “adjusting” its mission, the Reserve Bank spent considerable time canvassing stakeholders and marketing its preferred mission while managing expectations.

Interestingly, the Reserve Bank has cultivated the economics profession as its ally in any battles with the Government or the Bureaucracy. Attempts to rein in the Reserve Bank or to influence its decision making generally meet strong arguments from economists in both academia and the private sector to maintain the Reserve Bank’s independence.

The Reserve Bank sponsors economics forums, employs some of the brightest economics graduates and is generous in providing statistics and other data to economists. The Bank is also happy for its graduates to go out into the business or public sectors with its blessing. In short, economists are treated well by the Bank.

Independence from politicians has been promoted by a very strong culture in the Bank and a succession of very tough, independent governors. Even when Bernie Fraser was appointed Governor from the Treasury Department, he was quickly “absorbed” into the Reserve Bank’s culture of independence.

Of course, maintaining such independence is dependent upon the Reserve Bank delivering on its target of low inflation.

If this means upsetting prime ministers by raising interest rates during an election campaign, then so be it as John Howard found in 2007. If it incurs the wrath of home owners or the Daily telegraph (see the front page here), so what? We cannot please everyone, but we do please those who matter.





No position is unassailable. The Reserve Bank lacked judgement over the bribery scandal of its polymer note printing joint venture, Securrency.

As well, globalisation of monetary flows and lack of Government debt to buy and sell in market operations have further weakened the Reserve Bank's powers. More recently we have Government debt again but fiscal policy is countering monetary policy. Again, we are seeing a marketing campaign by the Reserve Bank to have stakeholders understand these changes and what they mean to the ability of the Reserve Bank to deliver on its mission.

The Lessons from the Reserve Bank include:

1. If your mission becomes unattainable, change it to one you can achieve (such as dropping the incompatible goals of low unemployment and low inflation).
2. Determine stakeholder wants and who is the prime stakeholder.
3. Monitor the environment and your capabilities to determine if the mission remains attainable.
4. Cultivate allies.
5. Neutralise negative forces. The Reserve Bank is happy to have rotating board members from business and trade unions. As a result, board decisions look to be inclusive of the community and board solidarity, like caucus solidarity, means that all members should support the board decision. Just make sure that the Reserve Bank boffins dominate the board and lead the decisions.
6. Set sensible measurable objectives. The inflation target is set as a range over the business cycle. Consequently, there is no need for frequent shifts in strategies and actions.
7. Seek financial independence if possible. The Bank generally makes a large profit and is self-funding.

The price of independence though is you must deliver on the objectives.

## Key Points

1. We first need a mission (or super goals) to know our purpose and why we exist.
2. Businesses generally have some profit mission inherent in their activities and may not even worry about a mission. However, in the more complex world of the public sector, the mission is vital. It is the reason to exist for the agency, department, program or whatever.
3. Consequently, considerable time and thought are given to defining the mission. If the mission is truly powerful, it will help focus our activities: what we do; and just as importantly, what we do not do.
4. Defining the mission must take into consideration our stakeholders and what they want and also the environment in which we operate.
5. Multiple stakeholders can be confusing, especially when they have conflicting (even incompatible) demands.
6. We try to simplify stakeholders. Can we group some according to generally agreed wants? Can we align some stakeholders who have some common interest? Can we test the real demands of clients by imposing some pay for service structure?
7. We must determine who is our key stakeholder and what is the minimum needed to satisfy this stakeholder.
8. Be wary of surveys and voting patterns. Observing behaviour and having some theory or hypothesis on what is needed are useful aids to determining an appropriate mission.

9. **Mission statements are generally brief and inspiring. They therefore lack detail. The detail is added by setting goals that will lead to achieving the mission.**
10. **Goals are further detailed by setting measurable objectives for each goal. We can now manage by objectives rather than micro managing the actions of each staff member.**
11. **We need to know the goals and objectives of the levels of organisation above us before we can set objectives for sub parts of the organisation: departments; programs and the like. The rule is that lower level goals and objectives are only valid if they lead to, or help, the achievement of higher level goals and objectives.**
12. **Time moves on. It may be that the mission loses relevance or can no longer be achieved in the changed environment. It would be wise then to change the mission. See the Reserve Bank example.**

## 6. Step 2: Environmental Analysis

### What is happening and where is it going?

Now that the Mission and its subset of goals and measurable objectives have been determined, we proceed to analyse the environment in which we operate now and in the future.

For relevant strategy, plans and action, any organisation needs to be cognisant of its environment. This means not only being aware of its environment but having undertaken analysis to understand the environment and where it is heading.

External or environmental analysis is the gathering, filtering and analysis of data and then the synthesis of the resultant information into an appreciation and understanding of the environment. This answers the first of our three fundamental questions/

### 6.1 Define the Environment

The first step is to define our environment. It sounds simple but causes much angst.

For example, the field in which we are we operating could be defined by:

- service or product
- client type
- geographic location
- time frame
- service delivery point
- private or public benefit

For reasons of practical simplicity, it is normally wise to define the environment very tightly or narrowly. For example, say we are looking at “nutritional welfare for disadvantaged children under 7 years in remote communities”.

This definition immediately narrows the scope of our data search to manageable proportions. We are not going to look at cities or large country towns. We are not going to look at adult or even youth issues and we are focusing on nutrition rather than all health, drug and other social issues.

Sociologists may criticise us that we are ignoring the wider social problems and that we cannot look at such a narrow slice of child health in isolation from issues surrounding poor housing, inadequate access to health facilities, education and so on. Such criticisms are true and valid. However, if we broaden our scope to cover all these issues, we will still be working on the analysis long after our current clients of 7 years of age are applying for the age pension.

When we say we will **focus** narrowly, it does not mean, that we will totally exclude the wider environment from our analysis. However, we will treat the environment beyond our focus in less depth and only raise its importance if some aspects will impinge on our ability to operate in our area of focus.

Business analysis does much the same. It normally focuses most attention on the internal rivalry within the defined market and customers. It is acknowledged though, that there are alternatives for customers, beyond the immediate focus of the defined market. These are labelled substitutes and the depth of their analysis depends on how closely they are considered as alternatives by our customers.

## 6.2 Gather Data

Reality is rich and complex. To obtain all the data relevant in our environment is a daunting task. To be omniscient is a futile task. The additional data gained will not justify the expense or effort. As well, the time taken will make much of the information obsolete before the task is completed.

Instead, we need to **direct the hunt** for information that is **relevant** and **key**.

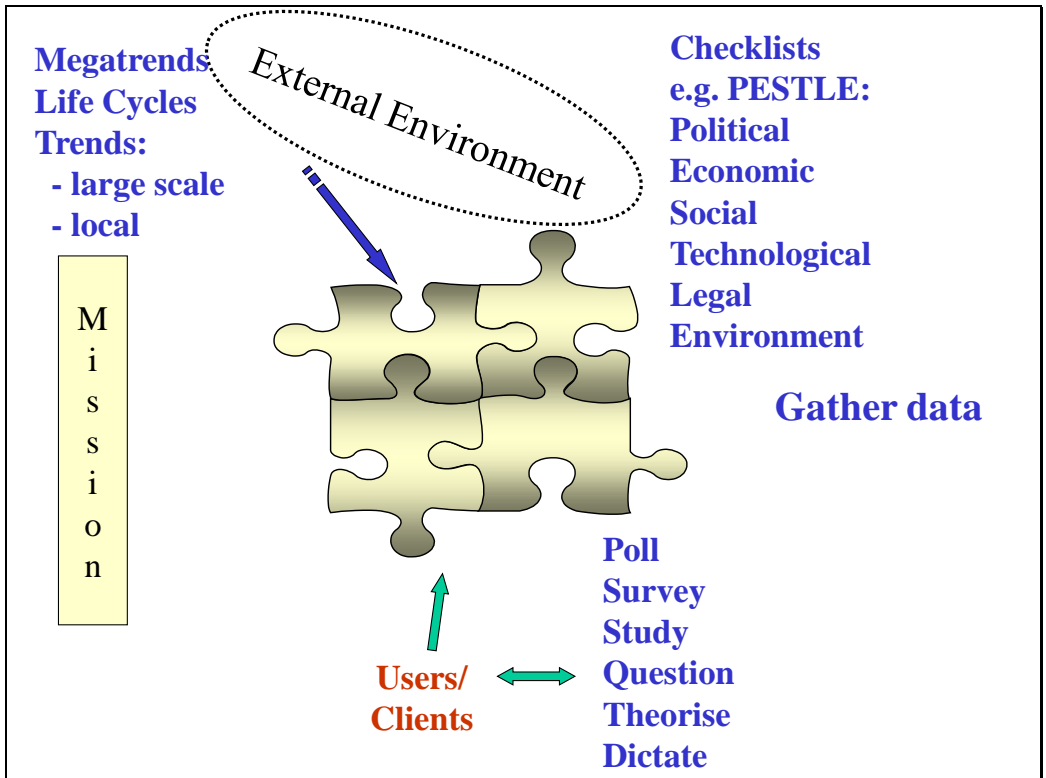


Figure 6.1 Tools for Gathering Data

From the start, the analyst is filtering the input of data coming from the environment.

What is defined as key will be largely based on the analyst’s experience, prior knowledge, skills and prejudices and what will affect achieving the mission. The analyst will already have some hypotheses or thoughts that will help direct the data search and filtering.

While filtering is important, it runs the risk that important data is ignored or depreciated. This “myopia” can be partly controlled by the use of more than one analyst in a team approach – or at least a review body – and the use of checklists built from past experience.

As well, part of the data gathering is likely to include discussions with “experts in the field” and they are usually attuned to wider issues that may have an impact on our analysis. The analyst listens to people!

## 6.3 Data Availability, Validity and Reliability

Web based research has increased the breadth and efficiency of desk research although there are doubts about the reliability of much of the information. The field of competitive intelligence largely draws on public domain information and offers advanced data mining techniques of the web and other published information.

A second source of information is surveys – a popular choice among marketers and government agencies. However, surveys have come under increasing scrutiny regarding their validity (do they really measure what they purport) and reliability (are they really representative)?

Even market research companies are questioning the results from surveys. Apart from the usual concerns about sample size and representation, psychological evidence warns of halo effects where the survey respondents provide answers that either put the respondents in a better light (in their view) or are the responses that the interviewee thinks that the interviewer wants to hear. Remember the diary surveys and the ratings biases between Channels 2 and 10.

A consequence has been to use focus groups where the aim is more on qualitative information rather than quantitative responses. “Why do you like this product?” How would the service be improved if we changed the service points”? Even then, we may attract “professional” focus group attendees who are keen to give the answers that researchers like in order to be included on future focus groups.

So where else can the researcher turn? Fortunately, there are several avenues.

**Observation** is a prime method. Just watching what people do can be illuminating (taking care that the observer is not observed). This technique has been found useful in many social studies from cows to chimpanzees to communities.

**Find the expert.** Almost all environments, industries and fields of study have one or more recognised experts. Interviews with these people bring

not only data but analysis built up over many years. Care needs to be taken against bias or inaccuracy by the expert. Consequently, it should only be one data gathering technique and the data should be checked against other sources.

**Application from other fields** is another technique. What has happened in other similar cases? Alternatively, what has happened in this same situation but in a different location (or even country)? Again, care must be taken in transferring the results from a similar case or from a different location. There are always local differences that may render the studied examples unreliable.

**Interview people.** While not as statistically rigorous as focus groups or surveys, this simple technique quickly builds up qualitative information and broadens the analyst's perspective. Usually, after only a few interviews, recurring themes appear which tend to be a fair representation of reality or at least perceived reality.

**Check behaviour.** Not just observation as above but analyse the history of actual behaviour. If sales or use of a service are declining over time or in a particular region, then this is valid data. If our staff members are resigning at a rapid rate or if clients no longer attend a certain program, then we are being given important signs that all is not well. You can obtain data on movements, purchases, enquiries, enrolments and so on.

The military forces have been told for years they have a problem with personnel retention. Yet only recently have they started to survey why staff members are leaving in droves and do exit interviews. Surprisingly, the popular view that it is about pay and conditions compared to what could be earned in a buoyant private economy, does not stand out. This has been an excuse used by senior officers.

The lack of retention has more to do with a younger generation no longer willing to accept dogmatic behaviour by incompetent senior officers and a system that is inflexible to the private lives of the personnel and their partners. Alas, the military hierarchy seems unable to change its stripes. The responses so far have merely been to seek higher pay for extending enlistment and for more expensive recruitment campaigns. Meanwhile the



personnel continue to resign rather than re-sign. Rather than face reality and change their behaviour, the military hierarchy dismisses the data. Their lens for viewing the data is not coloured, it is opaque.

**What you and your staff already know.** The field of competitive intelligence is founded on gaining information that allows analysis leading to insight. Interestingly, it downplays the usefulness of the internet (too much disinformation) and market surveys. Instead, most of the information required for analysis probably lies already within the organisation. It is in the heads of the staff members who have operated in the environment for years.

There is usually a mine of information in the heads of your own staff. We need to tap this information and use it. Only where there are major gaps in our knowledge do we need some directed external research.

## 6.4 Using Scan Checklists: PESTLE

Checklists can be useful reminders of what to scan. They help limit the chance of forgetting to check major items. However, they do not set out priorities or offer further analysis.

In business or private sector analysis, Michael Porter's 5 Forces model is a major tool. Porter's model offers extensive checklists for each of the forces to help the analyst ensure the right data has been gathered. It then provides some guides as to what each point in the checklist may do to strengthening or weakening the attractiveness of the force to give higher profitability.

However, social issues and goals are broader than business issues and goals. Thus, social checklists are less prescriptive of what the factor might mean in the overall analysis. Consequently, the analyst needs to conduct further steps to determine what the information from the checklist **means** and what are the **consequences**?

A common checklist is the mnemonic of PESTLE. It is a sign of growing complexity that we now use PESTLE or sometimes STEEPLE (with Ethics

added) or even STEEPLED (with demographics added as a separate heading).

Thirty years ago, the mnemonic was a simple PEST. Life was simpler then.

Some of the items to be considered under PESTLE include:

**Political:** Environmental regulations and protection  
Taxation policy (progressive, regressive, etc)  
International agreements and treaties  
Government system  
Political stability  
Election cycle  
Government organisation and attitudes  
Community attitudes and power  
Lobby groups (especially special interest groups in the area of interest)

**Economic:** Economic growth  
Inflation  
Interest rates  
Balance of trade  
Unemployment levels  
Taxation  
Exchange rates  
Stage of the business cycle  
Consumer confidence  
Degree of competition and industry structures  
Availability of key resources  
Lifecycles of products and services  
Industries in growth or decline  
Regions in growth or decline  
Savings and investment levels  
Degree of indebtedness  
Level of economic development  
Infrastructure levels

<b>Social:</b>	<ul style="list-style-type: none"> <li>Population demographics (who, where, how many, how old)</li> <li>Cultural beliefs and attitudes</li> <li>Income levels and distribution</li> <li>Labour mobility</li> <li>Occupations</li> <li>Social classes and mobility</li> <li>Education levels and availability</li> <li>Lifestyle movements</li> <li>Health levels and conditions</li> <li>Living conditions</li> <li>Leisure and lifestyle activities</li> <li>Religions</li> <li>Outlooks, confidence levels</li> <li>Attitudes</li> <li>Welfare levels</li> <li>Consumer behaviours</li> </ul>
<b>Technical:</b>	<ul style="list-style-type: none"> <li>Degree and level of technological sophistication</li> <li>Government and industry spending on research and development</li> <li>Government support (taxation incentives, legislation, etc)</li> <li>Infrastructure support: people; training; capital</li> <li>Rate of new inventions and technological development</li> <li>Rate of patent applications, value of patents, etc</li> <li>Net importer or exporter of technology</li> <li>Rate of technology development and technology obsolescence</li> <li>Rate of technology transfer and take up</li> <li>Degree of innovation</li> <li>Disruptive technologies changing fundamental structures</li> </ul>
<b>Legal:</b>	<ul style="list-style-type: none"> <li>Legislation – current and pending</li> <li>Independence of judiciary</li> <li>Safety regulations</li> <li>Consumer laws</li> </ul>

- Company and business laws
- Labour and work place laws
- Tax laws
- Enforcement levels
- Support of laws in the community

**Environment:**      Legislation and regulations  
                                 Enforcement  
                                 Degree of environment degradation  
                                 Sustainability  
                                 Community attitudes  
                                 Critical issues and limitations imposed

Remember that it is only a checklist. You do not have to fill in each heading in the list. If it is not relevant, leave it out. The danger is being swamped with too much data. Try to only have the more important items listed.

Remember too that it is only a list. More analysis is required later.

## **6.5 Trend Analysis**

The prime interest is not so much on what is happening today. The prime interest is where it is heading, what will happen tomorrow. It will take time to devise our strategy, to set plans and take action and have effect. We are planning for the future, not today.

Consequently, we look for trends. Trends are useful in strategy analysis since strategy is essentially about the medium to long term rather than brief or transient events. Trends give us an opportunity to position our department to be in the right place in the right future time.

It is difficult to predict minor or weak trends. If we really could tell where the share market or property prices would be in three years' time, we would not waste our time working or telling others: we would be investing.

Fundamental or mega trends on the other hand, generally have a momentum and keep rolling on inexorably. An easy trend to pick is the aging of the population. More subtly though is the trend for Generation Y being priced out of the housing market in many major cities. As a result, we see a more mobile workforce and also declining home ownership.

Be careful with interpretation of trends. A common fault of “Western” thinking is to think in straight lines and to lineally extrapolate trends. The future is generally more variable and richer. More comment will be made on this issue later.

## 6.6 Uncertainty and Triangulation

The analyst needs to accept that neither the data nor the knowledge will ever be complete or perfect. Much of the data will be perception rather than reality and reality is not static anyway. As well, some of the data is likely to be contradictory.

Just as in trying to locate your position using a map and compass, you will take several bearings and try to locate your position within a reasonably small area (global positioning technology notwithstanding). The minimum number of bearings required to obtain an area is three. Hence the term: triangulation. You should be located somewhere within this triangular area. More bearings may reduce the area of uncertainty but the effort needs to be balanced by the likelihood and benefits of a more defined area.

Such uncertainty happens frequently. Investment banks make a fortune in fees defining the area in which a company might be valued (and yes, they use several techniques to triangulate the approximate value).

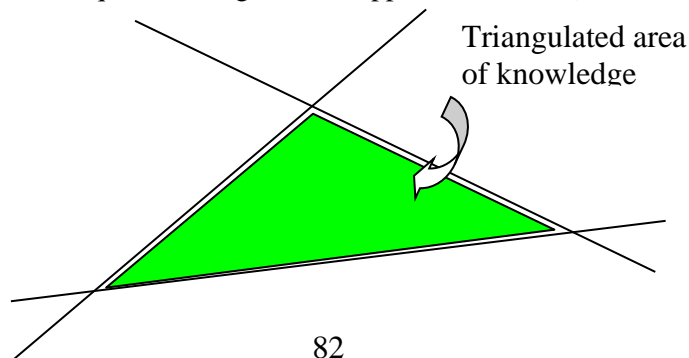


Figure 6.2 Triangulated area of knowledge using three sources or techniques  
By using several techniques to scan the environment, you may not be certain of your exact position, but you should have narrowed it down to a reasonable area of knowledge or limited uncertainty. If further effort to more accurately pinpoint the position would not change the decisions you would already make, then you have wasted time and resources on unnecessary accuracy.

## 6.7 Filter Data

Data needs to be filtered at several stages. We cannot absorb all the data in an environment – it takes too long and costs too much.

To gain order out of chaos, we start to assign data to several categories:

- Critical with major impacts on our operations. This data must be addressed by our strategies
- Important – will certainly need to be considered
- Minor – interesting but may not be accommodated in the analysis
- Irrelevant – let it go

Having spent so much effort collecting data, we often find it difficult to let some go. But most of your data is dross or background “noise”. Let it go so you can focus on the few important pieces of information. You will discard or downplay most of the data.

To simplify or organise our data, we look for groupings of factors and correlations. We could then list these data factors as one stronger factor leading to stronger trends.

Alternatively, we may be able to let some more data “go” because we already pick up its effects through other correlated factors.

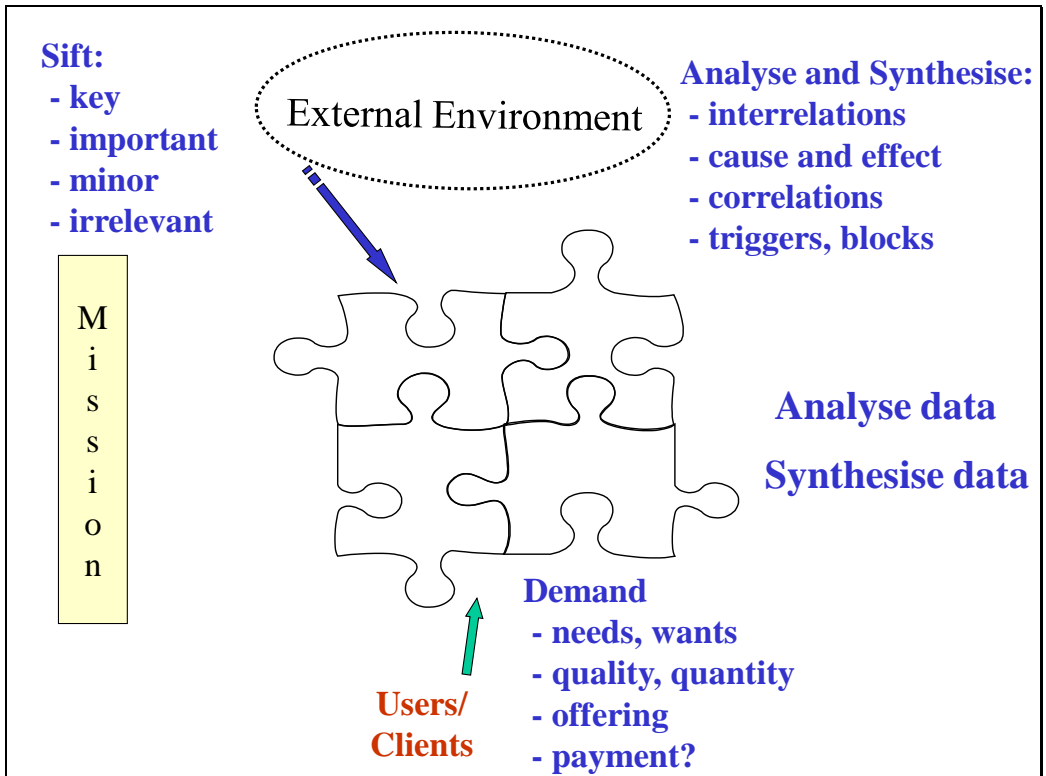


Figure 6.3 Filtering and Synthesising Data

**Trigger and Blocks** are interesting and they remind the analyst that life is not linear. Nothing may happen until a trigger is set off or a threshold reached. Then events will change rapidly. We can see this in stock markets and housing markets and they occur in social events as well. See the example later on analysis of youth gangs for triggers.

More recently, books have been written about a new concept of **the tipping point**. This is actually just our triggers and blocks being given a fancy new name to promote another consulting fad.

**Cause and Effect** has always been a major issue for social and economic theorists and doctors. When we observe events, which was the cause and which was the effect? Treating the effect is only secondary. The root issue has not been dealt with and is likely to soon manifest itself in some other effect. If we can identify and treat the cause, our strategy is likely to be more successful long term.

## 6.8 Major Drivers from Hypothesis

It helps to have some theory or hypothesis on what is important. This will direct the initial focus of study. The danger is that we bring our preconceived views and biases to the analysis and that we risk ignoring important facts.

For example, the unravelling of the double helix structure of the DNA molecule was hindered for years by the view (including Linus Pauling, the pre-eminent chemist) that the helix was a three strand structure. Watson and Crick only moved to the double helix structure after exhausting attempts to make the three strand structure work. More critically, they were given access by Maurice Wilkins to the X ray photo and research work of Rosalind Franklin which physically showed the helix with a double strand structure.

Watson, Crick and Wilkins received the Nobel Prize. Franklin died young from cancer before any award and the Nobel Prize is not awarded posthumously. The X ray radiation from her work almost certainly contributed to her early death.



Francis Crick    James Watson    Maurice Wilkins    Rosalind Franklin

Figure 6.4 Key Players in the discovery of the DNA helix

Likewise, the discovery by two Perth doctors that most stomach ulcers are caused by specific bacteria was delayed for years by the absolute belief in medical circles that it was all about life style and generation of stomach acid. A view supported by drug companies peddling medication.

Nonetheless, some hypothesis on what is occurring and why, is a major help in defining and refining the search for relevant information.



The hypothesis on what is happening is also useful in determining what are likely to be **key drivers** in the environment.

For example, if we are interested in long term demands on public health services, then we may hypothesise that the aging population will lead to certain changes in demand: less obstetrics and more dementia wards for example. We would then scan the environment to support, confirm or refute this hypothesis.

Focusing on key drivers follows the Pareto Rule or 80:20 rule. That is, 80% of what is happening is caused by say 20% of the factors. In practice, it is often more like a 90:10 rule.

The data gathering on key drivers will later lead to analysis of key success factors later.

### **6.8.1 Serial Refining**

Rather than gather a mass of data and then try to make sense of it, the experienced analyst will typically do some preliminary analysis along the way. From this analysis, hypotheses are formed, checked or discarded. These serial hypotheses help to shift and direct the data search without having it expand to unmanageable proportions.

### **6.8.2 Allow Discrepancies and Paradoxes**

To counter a natural tendency towards orthodoxy and linear thinking, it is good discipline to record and review discrepancies. These are examples, thoughts or data that do not fit well with the hypotheses being explored.

Exceptions or **outliers** are often more interesting than finding further correlations and evidence in support of your hypotheses. A paradox should be highlighted as it may mean that the entire basis of the hypothesis is flawed.

On no account should exceptions or outliers be dismissed or removed from the data merely because they question the orthodoxy or current “truth” being built. Do not artificially fit data to your model. Face reality as it is!

## 6.9 Analysis

The modern trend is to spend at least as much time on analysis as on data gathering. All the data gathering and sorting is useless unless it is analysed for what it means.

Analysis begins by assessing the constituent parts of our environment. Our total environment is generally too large and complex to directly understand from holistic observation. We need to analyse our various observations to understand their nature and their essential features and what they are doing.

Attempts can be made to score or assign values to the impacts of the various elements of the environment but rankings are often decided by perception and value judgements rather than reality.

Where possible, some quantification is desirable e.g. what proportion of the population will be retired from work and consuming health services by the year 2030? What will be the cost of providing those services? But do not deceive yourself that the quantification is precise.

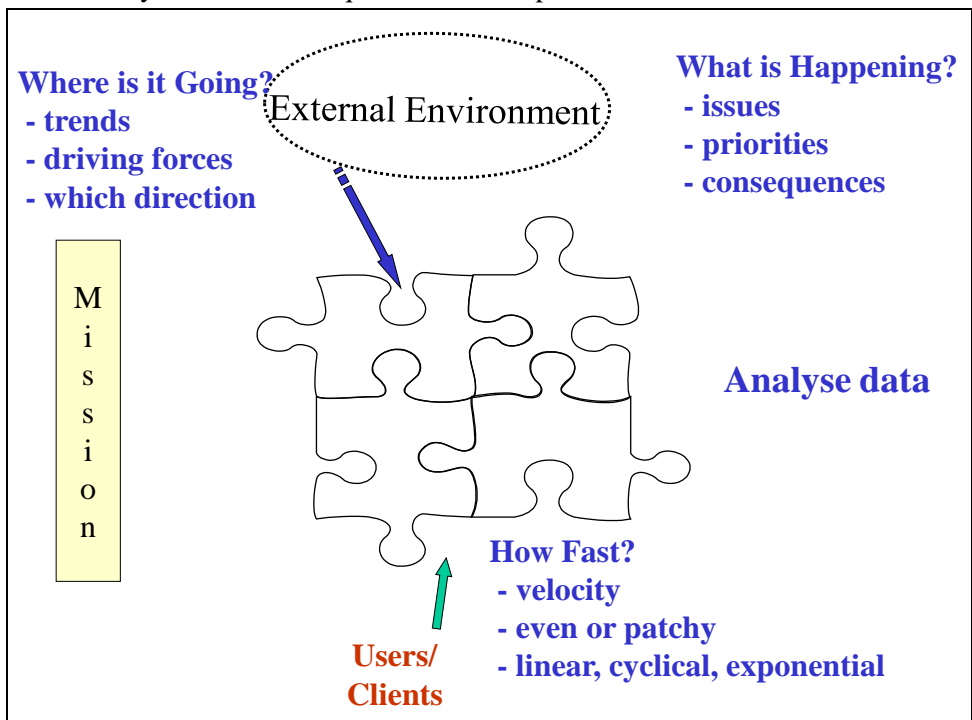


Figure 6.5 Analysis of the Data

Remember that our analysis is looking for trends, if they truly exist, correlations and causes and effects.

### 6.9.1 Analytic Methods

A mechanistic methodology is to go through each of the data observations and determine its **effect and direction of impact**. While still a list, we now have the added dimension of effect. However, we still normally have many observations to understand.

One method to simplify the analysis is to **group observations**.

Grouping may be by:

- ❑ direction of movement
- ❑ time frame of impact (e.g. immediate, short, medium or long term)
- ❑ importance or strength of movement

From this categorisation, we can draw summary conclusions that will simplify the number of observations.

Consideration of **triggers or sleepers** is another analytic technique for analysing observations. Some observations will not have an impact unless another event or precondition occurs. These are sleepers. The events that set off or activate the sleepers are the triggers. Other factors may be blocks that hinder an event occurring.

Often there is a required threshold before an event is triggered. For example, work place child care centres were not a concern of employers when they could obtain all the labour they needed. As the labour market tightened, particularly in certain sectors, employers found the need to offer child care facilities in order to keep or attract workers.

The relationship is not necessarily causal but there is some relationship. Sometimes the observation is a warning that another event has occurred which cannot be directly observed yet.

An example was a study conducted by Pulse Consultants on youth gangs for the NSW Police Force. Youth gangs were a high profile public concern, particularly by the elderly. What should the Police do?

At the time, most youth gang activity was short lived and the gangs tended to dissolve after a few years as the members “aged out”.

However, the report warned of two trigger events that should send alarms that particular youth gangs were developing a long lived persona: seeking to control drug distribution in schools and other defined areas (so that they had an economic incentive and the resources to continue) and the introduction of female members or associates so that the typical “find a girl and settle down” aging out process need not occur.

These triggers were identified – triangulated - from several sources: the hypothesis on aging out; youth gang activity in the USA; examples of other local gangs such as the motor cycle gangs. The analysis led to a strategy of not doing much against most gangs and instead focusing resources to dismantle gangs that would otherwise have a long and criminal life.

### **6.9.2 Analytic Skills Required**

Skills required by the analyst need to be multi-disciplinary. While not needing to be an expert in any particular field, the analyst needs to have enough understanding across a broad range of skills in order to make preliminary analyses and be able to know what to ask of experts in the respective field. As a consequence, the analysis is often carried out by a team of analysts covering a range of expertise. The difficulty that will later arise from the team approach is to synthesise all the parts together.

Skill sets required may include:

- economics
- sociology
- psychology
- marketing
- operations
- legal understanding
- politics
- logistics
- ethics
- environmental studies
- geography

## 6.10 Synthesis

Having separately studied the constituent parts of the environment and determined their effects, we now reach the conceptually difficult process of synthesis: putting it all together into a coherent understanding and forecast.

This is where we seek insight: the “ah hah!” moment.

Ability to think holistically, to consider systems (with interrelationships and feedback) and to detect patterns are desirable skills.

Current research on leaders points to two seemingly dichotomous traits: the ability to understand details; and the ability to simplify the future into a story that everyone can understand. Be aware that this ability to simplify the situation and the path to the future does NOT imply that the foregoing analysis was simple. It takes great skill and understanding to translate the complex to be understandable and still be valid!

### 6.10.1 Vector Mapping

Mapping or plotting the factors is a method to show factors visually and to indicate some of their characteristics such as importance, strength and direction of force. It helps the analyst visualise the many interrelationships that may be difficult to comprehend in serial written form.

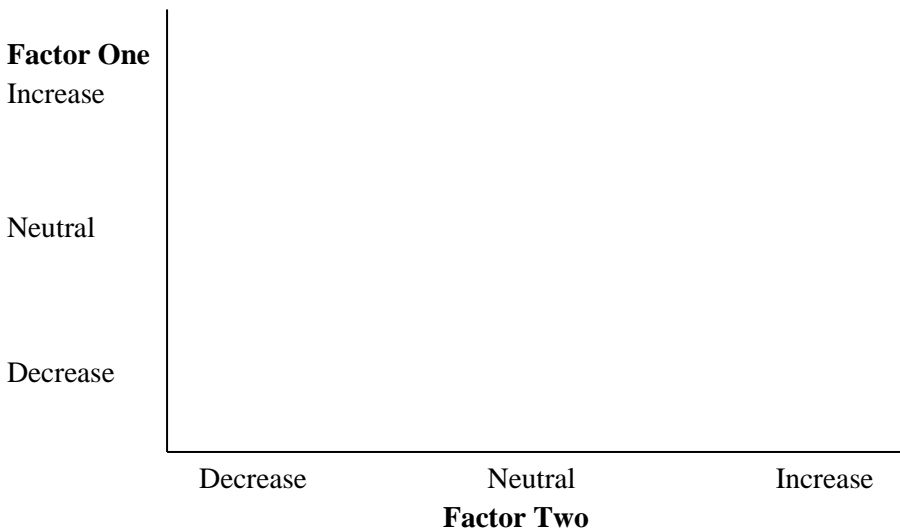


Figure 6.6 Basic Vector Map

More information can be added to the map using the techniques of cartographers: colours, symbols, size, arrows and so on. The limitations are based on what we can perceive and understand.

On a sheet of paper, we are limited to a two dimension or two-factor model. If we change either or both of the factors, we may find a different map and different analysis and we may gain a different perspective.

An example of a simple vector map is shown below for our aging population and public health care issues. On one axis, we have chosen the factor for increased demand for public health care. On the other axis or factor, we have chosen complexity of delivery. For example, it may be simply a matter of some extra beds in large city hospitals. Alternatively, given the trend for retirees to move to coastal resort areas or quiet rural towns, it may need greater complexity of mobile health services, in-home services or provision of more ambulance transport back to city facilities.

Critical factors are shown in red and other important factors are shown in blue. The size of each oval indicates the strength of the factor. Its position on the grid shows where the factor is located today and the arrow indicates where the factor is pushing towards (more or less of an impact).

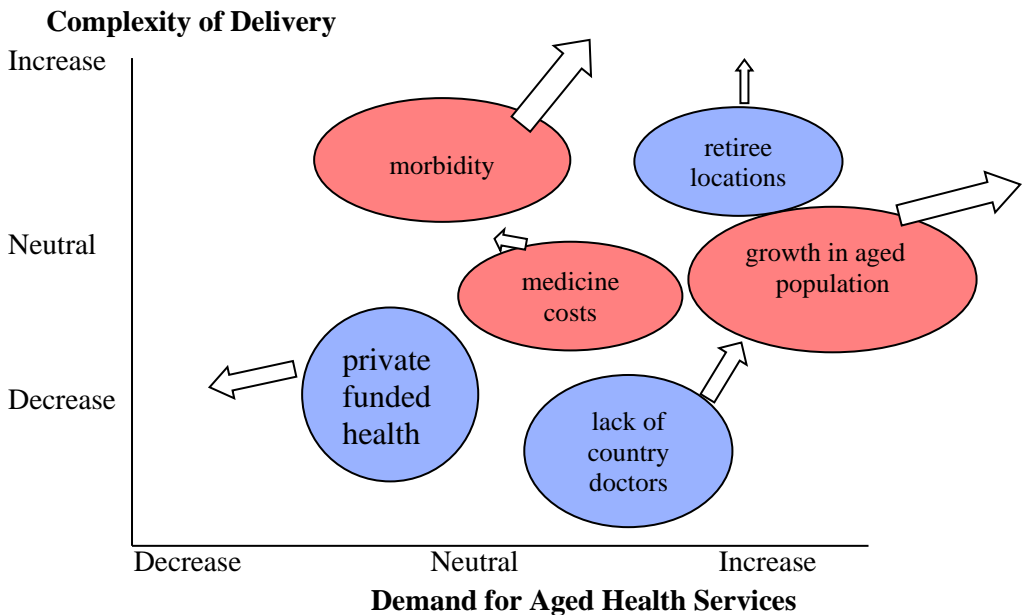


Figure 6.7 Simple Vector Map for Aged Health Care

From this simple map, it would seem that the large push by the growth in the aged population and the increasing morbidity rates (not living as healthily) more than overcome the benefits from driving down health costs and the push for more private funded health care. As well, retirees choosing to live outside of major population centres combined with doctors and other health professionals not wanting to live in these locations are adding to the pressures.

From the map, it could be expected that the already high demand and complexity of providing aged health care are likely to become far more acute over the next 10 to 20 years. This is the synthesis of our analysis.

## **6.11 Creativity and Innovation**

Finally, our analysis is not just of current factors. If we do not consider the impacts of technology, now and in the future, we are being too singular in our analysis.

*“If you can’t pay attention to, and assimilate technological information beyond your borders, you’re playing with one hand tied behind your back.”*

Richard J Samuels, Massachusetts Institute of Technology

What is happening with technological developments in our field of interest? What will be its likely impacts? Can it lead us to new capabilities and strategies?

For example, with our aging population living outside capital cities, how can technology provide new solutions? We have the Federal initiative for personal control of medical records kept on the net. We have self diagnostic tools on the web and on phone apps. We can do remote diagnostics of digital X-rays and other tests. We have self-administering allergy pens with adrenaline. Can we extend this usage to other ailments or emergencies? The possibilities go on and we need to consider such possibilities when formulating strategies.

## **Key Points**

- 1. With the Mission, Goals and Objectives now set, we turn to the first of our 3 fundamental questions: What is happening and where is it heading? The techniques are known as environmental analysis or scanning.**
- 2. First, we gather data. Much will already be within the organisation, especially in staff. We supplement with market research, observation of behaviour, interviews, experts in the field, study of similar fields.**
- 3. Checklists such as PESTLE help ensure we do not neglect major issues.**
- 4. There will probably be too much data. We start sifting for the key and important data and letting most of the rest fall aside.**
- 5. We analyse the data looking for correlations; cause and effect; triggers and blocks; key drivers.**
- 6. We then synthesise the discrete pieces of information together to understand a coherent picture of what is happening.**
- 7. Our synthesis gives us insight on the directions the environment is heading and at what pace. We seek to understand the future since our strategies aim to place us in a strong position to meet the future.**
- 8. We need to incorporate the dynamics of technology and innovation. We do not just use today's technology but consider what will be available in the future.**



## 7. Step 3: Internal Analysis

### What do we have going for us (our capabilities)?

Before we can move on to developing strategic choices, we need to assess the internal capabilities of our organisation. In essence: do we have what is required to handle the issues raised by our synthesis of the external environment? This is the second of our fundamental questions and is answered by our internal analysis or the assessment of our capability platform.

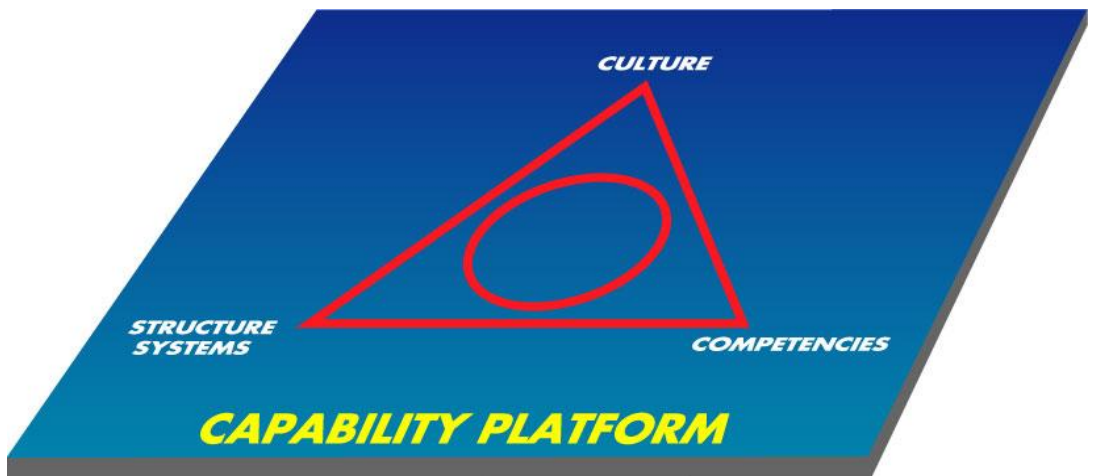


Figure 7.1 Capability platform

Note that although the analysis is about our internal capabilities, the assessment cannot be done in isolation from our mission or the external environment. The assessment is based on what we need in order to respond to the external environment so that we can achieve our mission.

Hence, this process is normally conducted after the setting of the mission and after the first analysis of the external environment. However, there can be feedback loops – even as far back as to revising the mission.

As with the external or environmental analysis, there are a number of tools or models to assist us in our assessment.

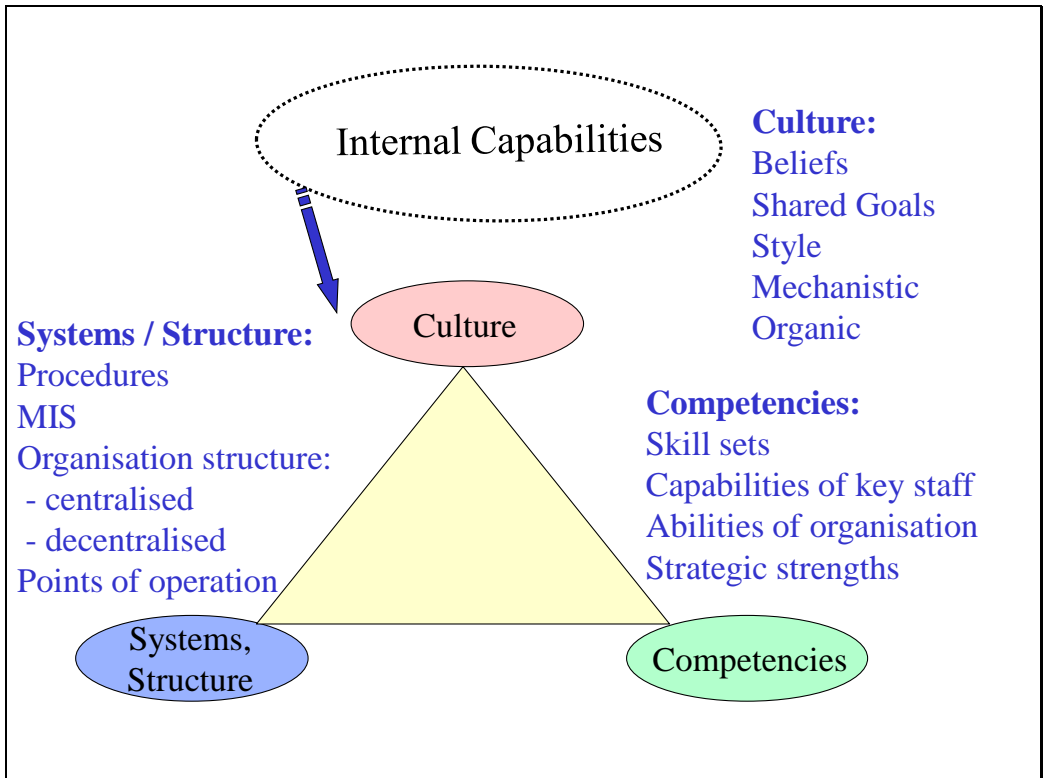


Figure 7.2 Major components of the capability platform

## 7.1 McKinsey 7 S Model

The McKinsey 7-S Framework is a model for viewing and assessing the internal capability of an organisation. It is sufficiently general to have been used successfully and extensively in private sector, public sector and not-for-profit sector organisations. The model was largely devised by Peters and Waterman when consultants in McKinsey & Co.

Although essentially a checklist, it does require the analyst to consider what capabilities are required under each heading to achieve the mission within the constraints of the external environment. The model also shows that an

organisation needs a **minimum level of each capability** in order to be adequately functional.

For example, having the best strategy or shared goals is fairly useless if the organisation does not have the systems or structure to implement the strategy! An example would be Sydney Ferries. The strategy seemed appropriate but the skills, structure, systems, style and shared values were abysmal and there were also concerns about staff and work practices and skills. It is little wonder then that the organisation was incapable of implementing its strategy successfully. It had to fix its many capability problems before implementing its strategy.

The McKinsey framework is a method of evaluating an organisation that is more consistent and integrated than just listing the strengths and weaknesses as done in a SWOT analysis.

Studies show that to succeed, organisations need more than just good strategy or plentiful resources. They need a coherent patterning of a number of factors which are the categories in the mnemonic 7-S.

The seven S's are:

**Strategy** Plan or course of action that leads to the allocation of an organisation's scarce resources, over time, to reach identified goals. We need to know the strategy to determine if it is congruent with the other capabilities for its achievement. The correct structure or systems or skills, etc is dependent on the strategy that is chosen. Alternatively, if the structure, systems and skills are already set and difficult or expensive to change, what is the appropriate strategy?

**Structure** Characterisation of the organisation chart (i.e. functional, decentralised, silos, teams, etc). Is the structure very flat or is it tall i.e. hierarchical? Does it suit whether we are a mechanical organisation (repeating simple tasks) or organic (when creativity and responsiveness are needed)?

<b>Systems</b>	Proceduralised reports and routine processes. Do the systems and procedures fit with the style and structure and do they assist in achieving the goals? Are systems adequate, flexible, and capable of expansion?
<b>Staff</b>	<p>“Demographic” description of important personnel categories within the organisation (e.g. engineers, entrepreneurs, etc). <i>Staff</i> is not in line-staff terms. Are there the right age, sex, ethnic and other mixes?</p> <p>“Staff” also includes the many staffing issues around recruitment, training, pay, promotion, career development, succession planning and so on.</p>
<b>Style</b>	<p>Characterisation of how key managers behave in achieving the organisation’s goals; also the cultural style of the organisation e.g. mechanistic or organicistic.</p> <p>Style is largely determined by senior management and how they seek to achieve the goals. There are many management styles. Basic styles include exploitive autocratic; benevolent autocratic; democratic participative; paternalistic; mechanistic; organicistic.</p>
<b>Skills</b>	Distinctive capabilities of key personnel or the organisation as a whole. Note skills for staff can include technical, thinking ability or personal skills. We also consider the organisation as a whole as to whether it has the right mix of skills in the right locations and management levels.
<b>Superordinate Goals</b>	<p>The significant principles or guides that an organisation imbues in its members.</p> <p>Goal statements are a major method of communicating the organisation’s goals. However, to be a force, the goals need to be accepted and believed by most members of the organisation and to be followed.</p> <p>(Superordinate goals are also called “<b>shared values</b>”).</p>

The soft S factors (staff, style, skills and shared values) are equally important as the hard S factors (strategy, structure and systems). They need to work together for success.

The analyst determines if there are shortcomings in any of the factors that would prohibit or inhibit successful application of the strategies.

Note you do not expect perfection in all or any of the factors. No organisation is that good and it would probably come at a prohibitive cost. We just need to ensure we have at least the minimal requirements in each category that are required to succeed.

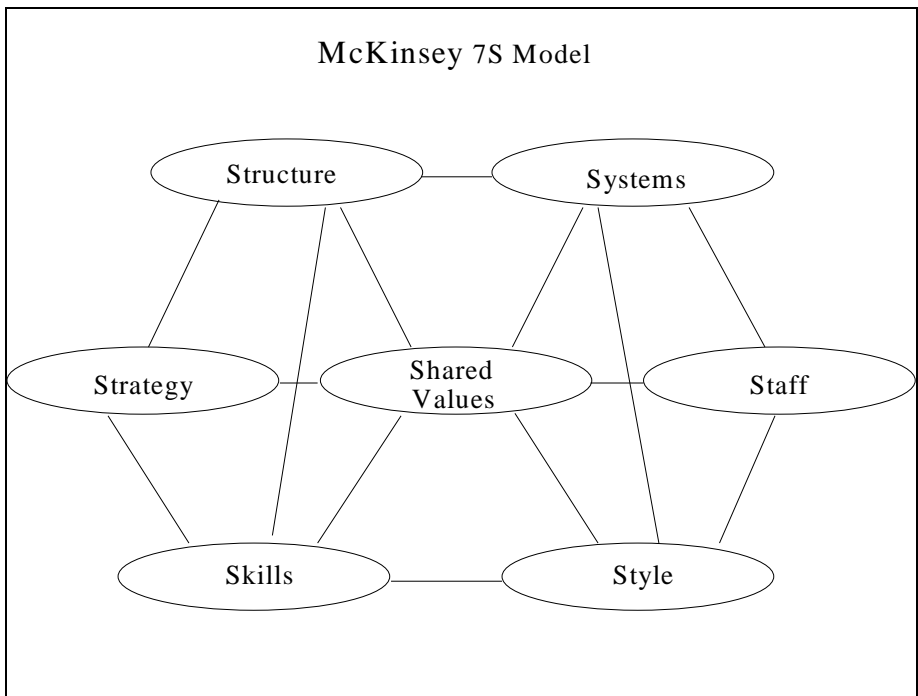


Figure 7.3 McKinsey 7S Model showing Interrelationships

The model reminds us that the capabilities are not discrete but are interrelated.

For example, after the terrorist strike of September 11, 2001 in the USA, airlines were grounded for several days and new security measures raised

costs while travellers reduced flying to essential travel only. All US airlines bar one laid off staff. The exception was Southwest Airlines. They took the view that they would bleed as long as they could before they would lay off staff. How could the airline ask for loyalty from its staff if it abandoned its staff in times of trouble? Southwest had the best recovery of profitability after September 11.

### **Use and Critique of the 7 S Model**

The model is largely just a checklist. Practitioners list the various components deemed to be required under each heading and then rate (maybe even score) the organisation on its level of achievement for each factor. Glaring lapses are highlighted for further attention.

The framework or model has been used extensively and received attention in management schools. Some critics point out that the model shows its age (it was developed 30 years ago) and that the faster pace of today's world means the model does not give sufficient emphasis to the need for flexibility and pace of change. The criticisms are partially true but the model is still useful with its limitations acknowledged.

## **7.2 SWOT Analysis**

An even older but still useful method is **SWOT** analysis. It not only looks at internal capabilities of strengths and weaknesses but also begins the process towards strategy formulation with the consideration of external opportunities and threats.

It can be undertaken with all your staff for inclusive analysis.

The basic idea is to determine the **significant**:

**S**trengths

**W**eaknesses

**O**pportunities

**T**hreats

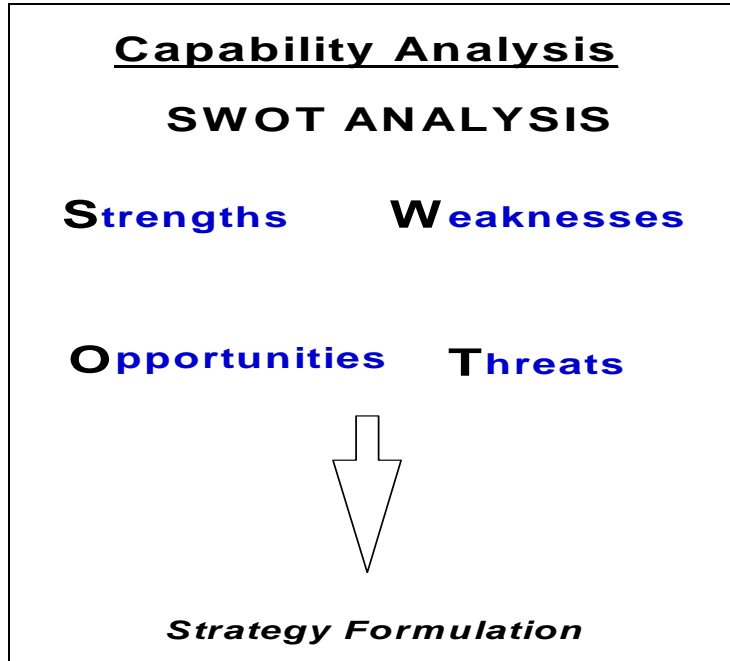


Figure 7.4 SWOT Analysis

Most organisations and most managers have carried out a SWOT analysis. Most organisations and most managers have found the experience to be not totally edifying or satisfying. Yet they return the next year to go through the same fruitless exercise.

The following tips will improve your next SWOT analysis.

SWOT analysis is **relative**. A factor is only a strength if you have it more than most of your competitors (other organisations vying to provide your service) or you have enough of the factor to achieve your mission. It is only a weakness if you have it worse than most of your competitors or it will prevent you from achieving your mission. In the case of our public sector analysis, we are mainly interested in our ability to achieve our mission but competitors could exist such as other agencies (public or private) that could potentially provide the service or goods.

Concentrate on the **key** or major strengths and weaknesses. List the 3 to 5 or so critical issues. There is a tendency to try and list as many strengths or weaknesses as possible. Stay focused.

**Be objective.** Some optimists want to list all possible strengths and believe there can be no weaknesses in their organisation.

Alternatively, we have pessimists who want to indulge in self flagellation and dredge up every problem in their organisation. In truth, most organisations have some major strengths and some major weaknesses.

A factor can be both a weakness and a strength. It may depend on the circumstances or how our strategy is played out. If there is a factor that can be listed as both a strength and a weakness you need to specify the conditions or reasons it appears under each heading. Otherwise, the listing is too indistinct to be useful.

Finally, avoid vague discussions. Most SWOT analysis sessions are spent with groups tossing around views and voting on issues. Do research beforehand and bring numbers and data to the analysis. For example, if we claim program delivery advantages, give evidence on how you can deliver better than another agency. Prove that clients are satisfied and so on. It should be analysis and not debate by the loudest voices.

Note that much of the discussion above is related to competitive situations where the SWOT is carried out relative to the position of competitors. This reflects the origin of SWOT analysis in companies with a profit or shareholder value goal.

Even so, SWOT analysis is useful in the public sector too. The only major difference is that the SWOT is not necessarily relative to competitors but relative to the organisation's ability to achieve its mission or relative to alternative suppliers of the service.

The SWOT is then conducted on the ability to achieve this given goal or mission.



For a public sector organisation, the missions are more complex but are also more subject to debate and modification. So we look to see if the organisation has the capabilities (essentially the strengths and weaknesses) in order to achieve the mission. If not, we are faced with the choice of:

- Improve the strengths or reduce the weaknesses, or
- Choose a different strategy that mitigates these issues, or
- Modify the mission to what is achievable

### **Strengths and Weaknesses**

Strengths and weaknesses are due to factors internal to the organisation.

They may be factors such as:

- Low cost operations
- Budget or other resource levels
- Community or public support for our activities
- Management ability
- Reputation in the community
- Established distribution levels
- Economies of scale
- Skill levels
- Advanced systems
- Enabling legislation

### **Opportunities and Threats**

Opportunities and threats are due to factors external to the organisation.

They may be factors such as:

- Changing political goals
- Changing demographics
- Government actions (many)
- New technology discovered
- Similar service offered by new entrant
- Our service no longer wanted
- Changing client requirements
- Change by major supplier
- Transport costs change
- Economic cycle

**Caution:** Avoid the temptation to list all the strengths, weaknesses, opportunities and threats that can be considered. This merely confuses the analysis. Choose those factors that are significant, that are likely and/or will have a major impact. These are the key factors.

### 7.3 Value Chain

A complementary analysis method to SWOT is the Value Chain. Where does the organisation add value to its clients and other stakeholders?

The entire operations of the organisation are analysed for what value they add and what they cost. One of the benefits of a value chain is that we can see if the organisation is following a consistent strategy throughout its operations e.g. low cost or quality.

A value chain is also useful when looking at process re-engineering. Are the activities undertaken by our organisation adding value to the client or other stakeholders? If not, why are we doing these activities? If another organisation can do the activity better, should we outsource it? The value chain can be used as a means of flow charting the organisation’s operations and to avoid duplication of services.

## Organisation Value Chain

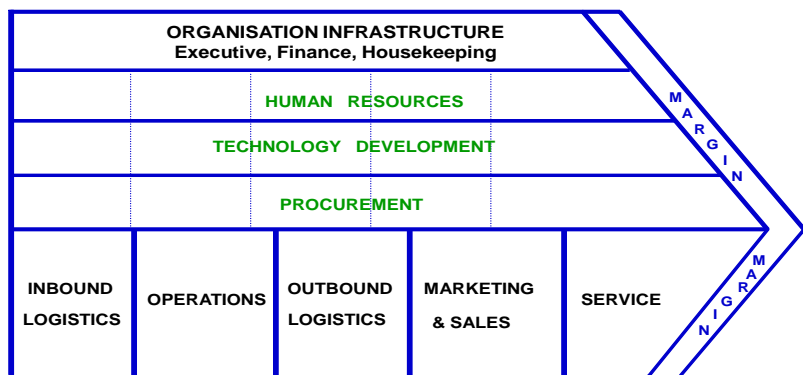


Figure 7.5 Value Chain

Allied to the Value Chain is **process mapping**. This is a more detailed and sophisticated diagnostic tool where the processes to deliver our services are literally mapped out or put on a diagram. We see the tasks that must be performed and in which order. We see the time taken and the resources needed. From the map, we can visualise where there are inefficiencies or duplications or bottlenecks.

### **Added Value of the Value Chain**

Both the Value Chain and process mapping are useful tools when faced with budget cuts.

These tools may show some easy wins: cutting processes and tasks that do not add value to the organisation or lead to achieving the mission. Often, there are legacy processes left over from some by-gone era. They are done only because “we have always done it that way”.

The next fallback position is to cut some service or output **entirely**. There are bound to be some low value outcomes that are no longer wanted or will affect only minor stakeholders if cut. It is better to make savings by cutting an entire offering than to do say a 10% funding cut across all programs and activities. Such an across the board cut is a good way to ensure none of the activities are performed well.

## **7.4 Competitive Mapping**

A conceptually simple but effective technique for understanding the effectiveness and efficiency of your organisation against other providers is competitor mapping. Note that this technique can be modified to public sector organisations in a “monopoly” position of service provision. The organisation is mapped against its ability to achieve or deliver the two factors being mapped.

The model has most application where there is more than one service provider i.e. a competitive situation. This does occur frequently in the public sector where more than one department (or level of government) is offering the same service or is servicing the same client or stakeholders (think NSW Fire & Service versus Police Rescue). It also occurs where

public sector organisations are competing against private sector suppliers such as in education, some infrastructure services, transport, health, etc.

The map is usually just a two axis diagram (those into 3 D imaging can try 3 axes). Each axis has a significant competitive factor such as price, speed of delivery, service, quality, guarantees, innovation, etc.

Which factors are chosen depends on what is significant to clients. This means you must still have detailed and quantified knowledge of your environment. Otherwise, you will end up with a vague and debatable map.

Your organisation and any similar providers are mapped on the diagram depending on how they score on the factors chosen. Size of providers can be indicated by the size of the circles drawn on the map to depict each firm.

Some degree of time and change can be indicated by placing an arrow on each organisation to show the direction in which it is heading on the map. Some mappers even have a dotted outline of where the organisation used to be to show how far it has moved or to show where it wants to reach.

It sounds simplistic but it often provides great insight into what should be obvious but cannot be seen due to too much detail or verbage. In practice, this technique is one of the most likely to produce an “ah hah” moment for managers who have been operating in their activity for years. Suddenly it becomes clear why certain clients demand their services and why other potential clients shun them,

You may need several maps by changing one or both factors on the axes.

The strongest position is in the top right hand corner, where you are providing the most of the desired attributes to the client or have the greatest level of benefits.

To attain this position though, is usually expensive in terms of resources. If an organisation can be in this position but still have low costs, then it is in a very strong position. Such an organisation should be the preferred supplier of the services.

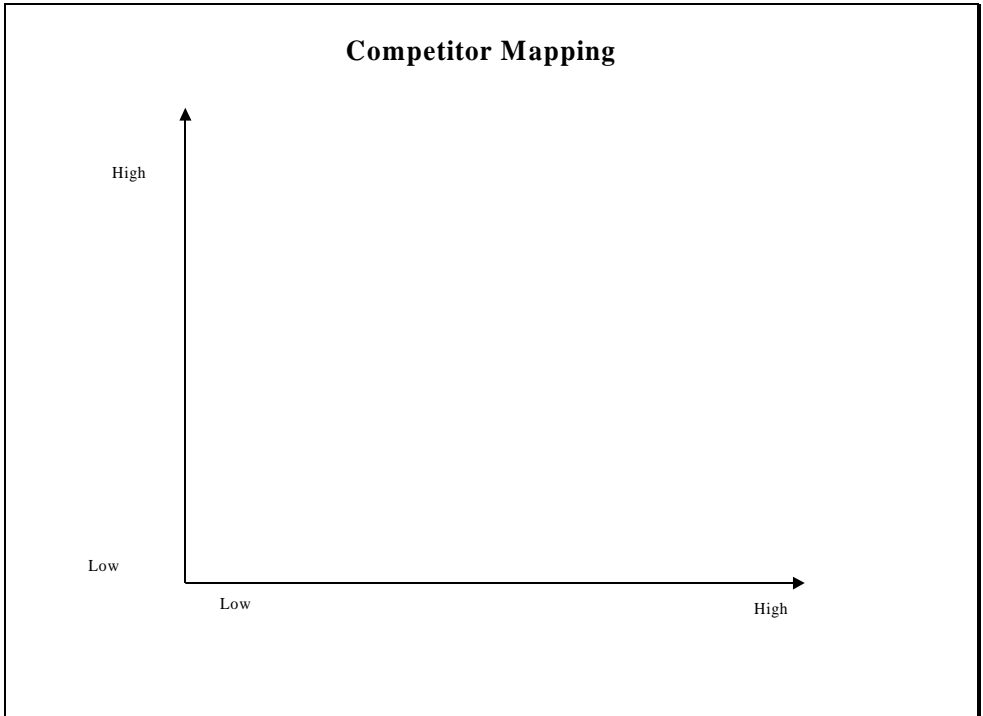


Figure 7.6 Competitor Mapping

## 7.5 Key Success Factors

Techniques such as McKinsey 7S, SWOT and Value Chain can provide many detailed listings of attributes and capabilities. The risk is that we have more detail than understanding. We may not see the forest for all the trees. Certainly, SWOT and other analyses benefit from setting some priorities or weighting to the factors. As well, minor factors need to be culled and correlated factors either culled or grouped.

Nonetheless, it is useful to raise your head up and consider the key success factors. What are the **few** attributes or capabilities that we **must have** in order to succeed (achieve our mission)?

Key success factors are the few critical factors required. We try to keep the list to just two or three normally. They are sometimes referred to as Critical Success Factors.

Ensure you have these key success factors and you have covered most of the capabilities you require to succeed. Ignore them and fail.

Even for a huge organisation like BHP Billiton, there are probably only three key success factors – all the rest is icing on top. Being a resources company, selling commodities, the key success factors are:

- Low cost production (because commodities)
- A pipeline of projects to replace those that are exhausted
- Conservative financing to live through the economic down cycle.

There are only a handful international scale resource companies. One had not ensured the 2<sup>nd</sup> key success factor: having more projects in the pipeline to replace those mines being exhausted.

Anglo American, originally formed in 1917, is now paying large premiums in order to obtain future reserves or else face a slow decline towards death.

A summary of the capability platform and techniques for assessing capabilities is depicted on the diagram below.

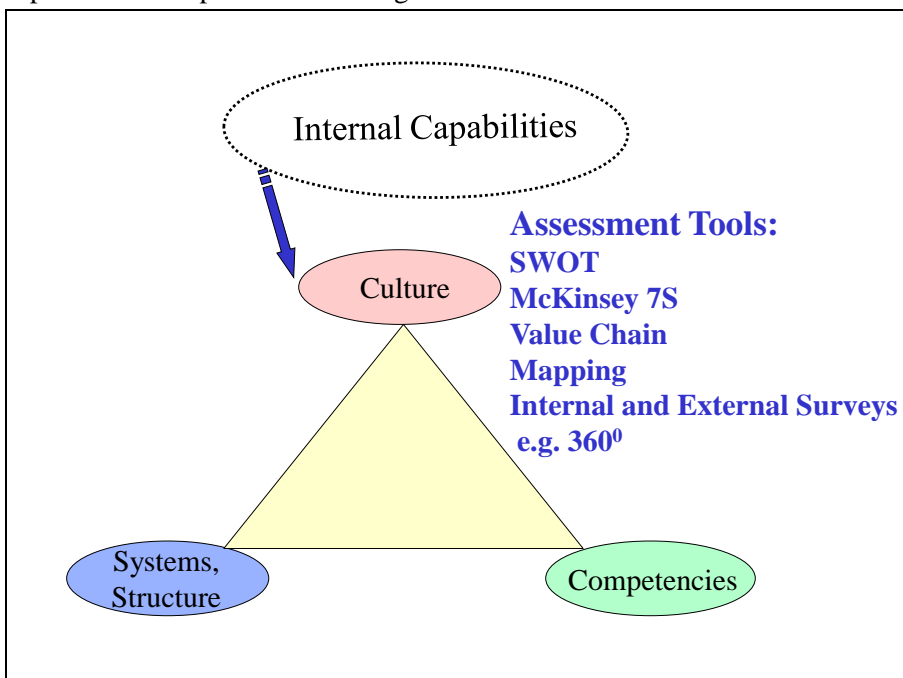


Figure 7.7 Tools for Assessing Capabilities

## Case Example

### The Department of Energy Utilities and Sustainability

The Department of Energy Utilities and Sustainability (DEUS) in NSW was established in January 2004 with the mission to take the lead in advising and developing policy regarding reliable and affordable energy and water. The Department was small and had little in the way of facilities that it actually ran.

One of its goals was to establish its credentials as a policy maker and adviser to Cabinet. A key success factor was the ability to present quality research with practical recommendations. Another key success factor was being “first to market” with these policy papers. Thus, it would be the preferred policy research body in its field.

If DEUS could not manage these two key success factors of quality research and being first to provide it, then just about everything else would be a forlorn waste of time.

Note that DEUS then needed to **work backwards**, to determine what capabilities it needed to achieve these key success factors. It needed skilled staff in research and policy development (or else devise a strategy of sponsoring papers by outside researchers). DEUS also needed systems and structures in place to ensure that research papers were quickly designed, approved, instigated and disseminated. Staff and management needed a sense of urgency.

Without these capabilities, DEUS was unlikely to achieve its goals. Either DEUS must ensure or obtain these capabilities or it must devise some strategies to get around these shortcomings (such as outsource to lean and mean freelance researchers). The third alternative of changing the goal or mission was possible but unlikely to be accepted as an optimal outcome.

Alas, DEUS did not establish these key capabilities quickly enough. Research was slow to be published and not always considered to be well researched or presented. In its formative period, management spent more time on designing logos and furnishing offices than setting the capabilities

of fast, good research. In short, DEUS did not deliver value to its stakeholders.

At the same time, DEUS was facing competition for policy papers but did not recognise this competition. The Treasury Department saw itself as the pre-eminent policy department for all things economic and concerning major infrastructure. It was a natural “competitor” to DEUS. Whatever research task was given to DEUS, Treasury would produce a better and faster report on it whether it was tasked or not.

DEUS lost! Just three years after its formation, the Department was wound up in April 2007. It did not add value to its clients for the costs involved.

## 7.6 Synthesis and Analysis

As with the external analysis, the disparate elements of internal analysis need to be pulled together into some overarching understanding of your internal capabilities.

The end output may be as simple as a statement defining your key abilities that will form the basis of your operation and some acknowledgement (at least privately) at what is not done well and should be avoided or outsourced. You should also be able to see the best opportunities for new tasks and the major threats that need to be accounted in your strategy.

Do we have the necessary capabilities to achieve our mission? Are there shortfalls in any of our capabilities? This assessment is sometimes referred to as **gap analysis**.

If we cannot fill the gap, can we devise a strategy where our shortcomings are not so critical?

Otherwise we will either need to invest to build our capabilities to the necessary standard or modify the mission.



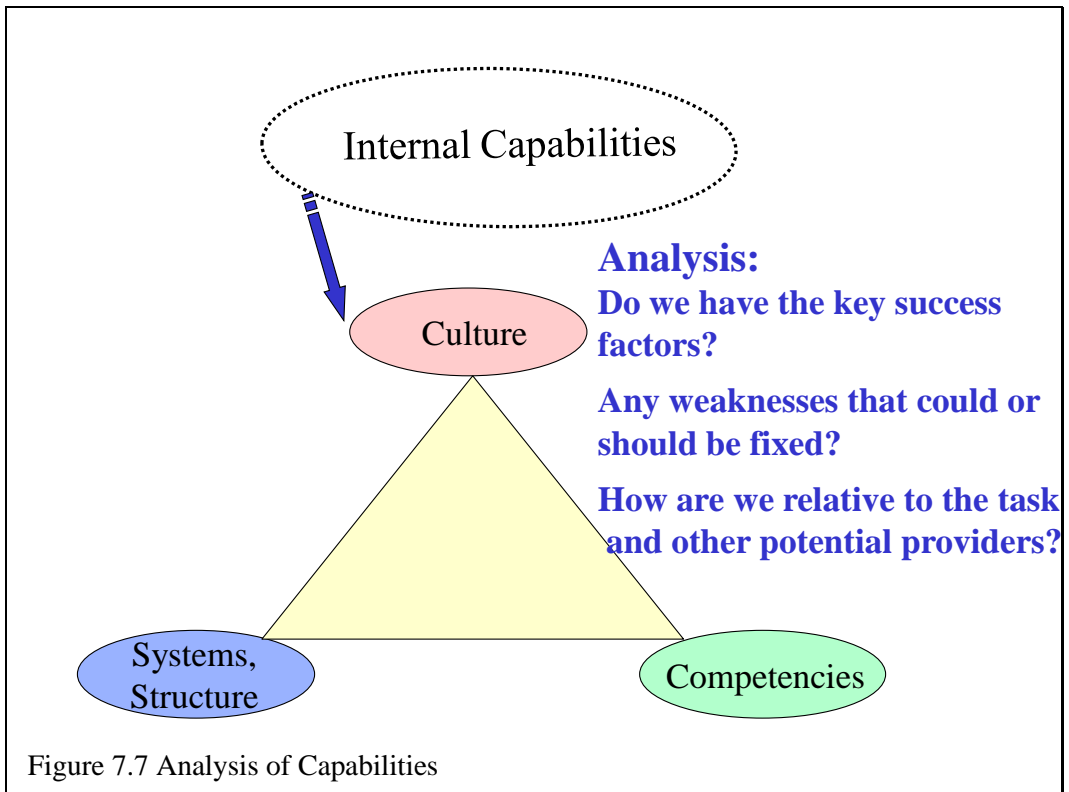
### Example: XPT Train to Armidale

Long ago in NSW when Neville Wran was Premier and David Hill was running State Rail, Neville Wran promised the voters of Armidale that they would have an XPT train service by August of that year.

Alas, there were not the resources to meet this promise without severely reducing other services. Hill went to the Premier's office and stated: "tell the Premier he can have his XPT to Armidale but the cost will be another \$40 million required in the budget".

This was political awareness by Hill that the Premier would not be gainsaid. Rather, he adjusted expectations of his key stakeholder and was building the capabilities to deliver.

The key questions we consider in our analysis of internal capabilities are shown in the diagram below.



## Key Points

1. Our second fundamental question is what capabilities are needed to achieve our mission in the defined environment?
2. There are several models or tools to help us determine our capabilities.
3. The McKinsey 7S model reminds us that we need to have our strategy, structure, systems, staff, style, skills and shared values all to at least a minimum level.
4. SWOT analysis lists key strengths and weaknesses (internal factors) and major threats and opportunities (external factors). We can enhance our use of this model.
5. Value chains and process mapping help us visualise what we do and to see if there are redundant processes or bottlenecks.
6. For larger projects, we may use PERT or CPM techniques to assist in planning.
7. Competitor mapping will illustrate if we are the “best” provider of a service. Alternatively, it will indicate what attributes we need to offer to be viewed as the best provider.
8. We can be swamped by too much detail. Focusing on the few key success factors ensures that we cover the main bases.
9. Understand your capabilities and shortcomings, given the environment in which we operate to achieve our mission. Missing major capabilities should show in our gap analysis.
10. If there is a major gap in our capabilities, we have 3 choices:
  - i. invest in resources to fill the gap
  - ii. select a strategy that minimises need for this capability
  - iii. adjust the mission to what can be achieved given our capabilities.

## 8. Step 3a: Developing Strategies

### What can we do?

Development and formulation of strategies in real life is about choices, trials, and use of multiple strategies.

Add the myriad of tactics or micro strategies that may last only a few months or even weeks as they are countered or lose efficacy with clients or stakeholders. The end result is rich complexity and unique plans for action.

### 8.1 Strategic Choices

There is rarely a single “right” strategy. There are usually choices and alternatives. Some may be better than others or more apt in the circumstances. Some may be more risky.

In any case, there is generally more than one possible strategy.

Your strategy is probably continually **evolving**. What might be the right strategy now may not be entirely appropriate in the future. Situations change. Clients’ needs mature or alter. Competing agencies or providers adapt and counter our present strategy. Technology moves on. Our capabilities improve. Our resources may rise or decline. All of these developments may mean we need to modify or evolve our strategy but not make it extinct.

We need to consider options when devising strategy rather than consider there is a unique solution set for a long time.

Strategy is not just one simple position or action.

**Strategy is a set of integrated decisions that position us in our environment and in regard to our capabilities in order to achieve our mission in some optimal way.**

We seek brilliant strategists who can devise and evaluate several strategies and who can formulate a combination of integrated decisions that will aid the implementation of those strategies.

## 8.2 Dimensions of Strategy

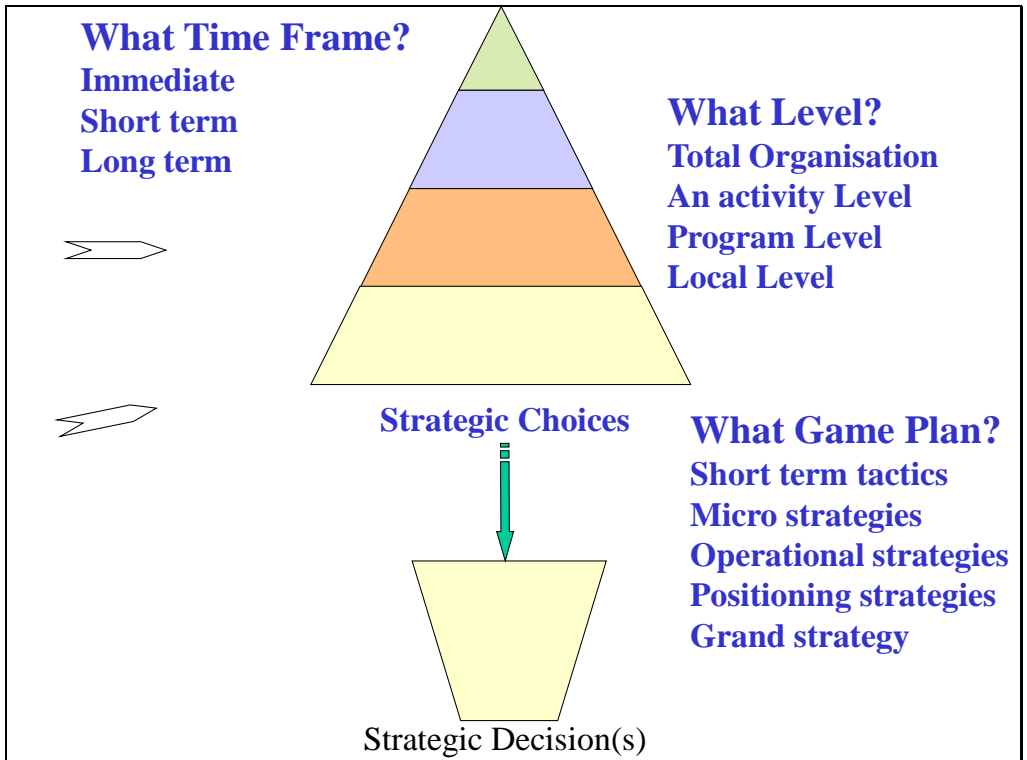


Figure 8.1 The Dimensions for Strategy Formulation

We begin by understanding where we are playing out our strategy.

What is the time dimension? Is it long term over several years or medium term over say the next few years or is it short term over the next year or less?

What is the dimension or level of the organisation? Is it for the whole organisation or perhaps for one particular unit or even just one program in a unit of the whole organisation?

What is the dimension of the strategy? Is it the grand strategy of the organisation or a department strategy or program strategy and so on?

Note that these dimensions are not randomly mixed. A Grand Strategy for the whole organisation is high level and will be normally set on a long term horizon of 5 years or more. A program activity is short term over a year or less and will mostly comprise micro strategies and tactics.

### **8.3 Degree of Complexity**

Many erstwhile strategists become overwhelmed by the scope and complexity of the tasks.

Do not give up. **Simplify!**

Apparently, a major difference between a grand master of chess and the talented amateur is the number of possible moves considered in any given situation on the chess board. The difference is that the grand master typically considers **fewer alternatives** than the less talented opponent. But they are higher quality alternatives. Experience from past games and all those books and other examples studied help the grand master to quickly dismiss many alternatives as not viable or not valuable.

Likewise, the experienced strategist has looked at many examples – either personally or from observation and reading. You will look at what other departments or agencies have done and consider why they succeeded or failed. The master strategist will consider a few high quality alternatives. The amateur fires away with many ideas, few of which are of high quality.

Be wary of a very complex or sophisticated strategy. Will it be understood and can you implement it? It is better to have something simple and implemented than something complex that cannot be put into action.

This does not mean you will not have detailed plans on the actions of your simple strategy, But keep it manageable. Learn to break complex tasks into manageable steps or bites. Learn to quickly simplify.

## 8.4 Levels of Strategy

Next, we need to consider at what level are we playing. This was first raised in Chapter 5 but is repeated here for your consideration. Are we talking of the entire department or a certain unit within the department or perhaps a particular program or .....?



Figure 8.2 Levels of Strategy

There are some points to be heeded from determining at which level we are playing.

First, what we do at the lower levels of our hierarchy needs to be tested for congruence with the level above. We should only undertake executional tactics that help us achieve the client or program strategies. Then, we should only pursue client or program strategies that help our unit achieve its goals. Then we should only undertake unit strategies that fit in with our achievement of the overall goals of the department or agency. Loyalty is to the next level above.

Second, the degree of detail normally increases as we move down the hierarchy. At the top, it is more directional and guiding.

Third, the time frame normally shortens as we move down the hierarchy. The overall vision and mission may never change or only evolve over many years. Unit strategies may have a time frame of a few years. Programs may run for perhaps a year. Executional tactics may have a life span of weeks.

Finally, we must know the long range plan and grand strategy before devising the intermediate and short term plans. The grand strategy has primacy. We do not want to initiate short term actions that may run counter to achieving the long term goal(s).

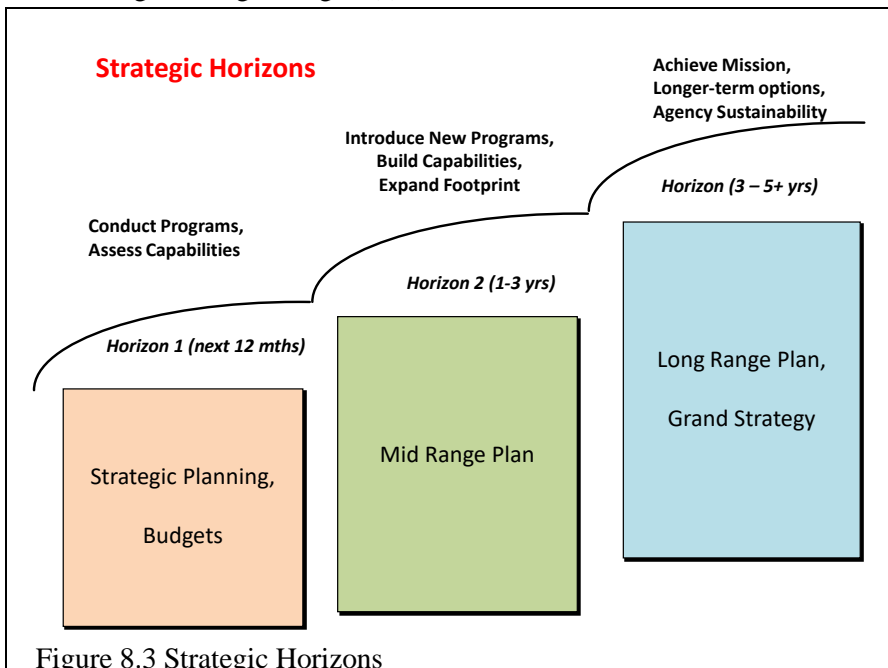


Figure 8.3 Strategic Horizons

The priority is to have the long range strategy and plan in place first even though it is still general. We then work backwards in time to do the mid-range strategy and plan and afterwards the short term strategic planning. We must know the long range goals and plans before devising the shorter term plans to ensure they are congruent with the long term.

## **8.5 Review of the Strategic Process**

How do you develop a strategy from scratch? Well, strategy does not pop out of a vacuum. It should mostly be a logical outcome of analysis. Let us quickly recap the processes that have led us to this stage of developing strategies.

### **8.5.1 Mission and Goal(s)**

We began with what are our goals. These may be synthesized into an overarching mission or super goal.

These goals or mission then needed to be broken down to more specific sub-goals and then into measurable objectives.

### **8.5.2. Situational Analysis**

Next we conducted our external analysis or environmental scanning. We do a situational assessment of where we are and what is happening. We assess where the situation is heading.

We used whatever tool(s) helped to organise and understand what is always a complex and detailed environment. The various methods are not exclusive. The basic requirement of the analysis is to:

1. Understand the segment of the environment being analysed
2. Understand inter-relationships between factors and issues
3. Relate trends to issues
4. Forecast the future direction of issues
5. Determine implications



### **8.5.3 Assess Capabilities Platform**

What are the capabilities of our organisation? Do we have what it takes? Analytic techniques include the McKinsey 7S framework, SWOT analysis, Value Chains and Competitor Mapping methods discussed earlier.

Value chain analysis can be extended beyond just the value chain for the organisation to consider a value chain across the entire issue and to show our organisation's role within this enlarged chain.

Capability analysis is used to identify an organisation's potential sources of economic advantage and abilities by reviewing its internal core competencies in light of its external environment to achieve optimal resource allocation. In short, what are we good at and should concentrate upon and what should we better leave for others to do!

### **8.5.4 Key Success Factors**

Sometimes it can all become overly complex and detailed. It becomes a case of "you can't see the forest for the trees" syndrome.

What are the two or three things we must do right in order to succeed? If you do not achieve these factors, everything else will just be window dressing.

### **8.5.5 Risk Assessment**

What are the risks? Not just threats but what else may happen such as changing stakeholder needs, or lack of resources to deliver the strategy or external shocks.

### **8.5.6 Strategic Choices**

Having analysed the situation and understood our capability platform, what are the **possible** strategies that could be undertaken? There is usually more than one.

This is where we are now at. We want to examine how to find possible strategies.

### 8.5.7 Strategic Decisions

In the next step, we will select the most appropriate strategy or strategies to implement. (See the next chapter for details).

## 8.6 Developing Strategic Choices

A starting point for logically deriving strategies is to return to SWOT or similar analysis. SWOT is one of the few tools that combine external analysis (the opportunities and threats) with internal capability analysis (strengths and weaknesses).

While SWOT analysis has limitations in assessing capabilities, it is one of the few direct tools to logically assist us formulate strategies.

SWOT analysis summarises all of our analysis to provide a logical lead into suitable strategies.

**The guiding rule is:**

**What decisions build on our strengths,  
offset or minimise our weaknesses  
to pick up some of our best opportunities and  
perhaps mitigate some of the worst threats or risks?**

Indeed, this logical lead into strategy formulation is probably the most useful feature and use of SWOT analysis.

## 8.7 Creating and Developing Possible Strategies

Inventing and assessing possible strategies is a critical skill. Yet it is difficult to provide any more detailed guidelines than the principle above. Attempts at generic strategies have been found wanting.

Michael Porter offered 4 basic generic strategies for businesses on a 2 x 2 matrix: differentiation versus cost leadership across the broad market or focused sector. It has been found to be too simplistic to be useful.

Reality is that businesses devise rich and complex strategies and that they segment their activities manifold with separate strategies for each segment.

If companies, with their focussed shareholder value mission, have difficulty using simplistic strategy models, then what hope is there for public sector organisations with their more complex missions and multiple stakeholders?

Each public sector organisation has its own unique mission, its own environment and its own capabilities. Therefore, the strategies that are appropriate for one organisation will not adequately suit another organisation. Each organisation has its unique circumstances and therefore, its unique strategic choices.

Remember this point when external consultancies come with a rigid framework or a dogmatic position. The best people to devise the strategy for a public sector organisation are those people within the organisation, providing they have the analytic and strategy formulation skills. They best understand their unique environment and their unique capabilities.

## **8.8 New Wisdom of Rosabeth Kanter**

Rosabeth Kanter was a Harvard University colleague of Michael Porter. As editor of the Harvard Business Review, she saw many ideas on strategy being proposed. Her blending of these ideas led her to conclude in the 1990's that many companies were moving beyond Porter's traditional fundamental advantages of low cost or differentiation. Social factors were important to business success. *"In a volatile, intensely competitive world, success comes from the capacity to respond and act – not from the characteristics of today's products and markets."* [Editorial to Harvard Business Review, "How to Compete", July-August 1990].

Kanter raised four new bases for competitive advantage that have some application to public sector management today:

- core competence
- time compression
- continuous improvement
- relationships.

**Core Competence** is the distinctive skill(s) the organisation does better than other organisations offering the product or service.

However, we can be multi-functional. McKinsey & Co. by the mid 2000's, found sensibly diversified companies generally outperformed more focused companies and did so with less risk. The reality is that it more depends on the **ability of management** than on the actual focus or diversification strategy. A similar conclusion could be drawn for the public sector.

**Time Compression** refers to the ability to do things faster than competitors. This covers attributes such as being first to the market with new products and services through to reacting faster to market changes or competitor tactics. Time compression and urgency are being forced on public sector agencies.

**Continuous Improvement** is as the name implies: producing better products and services by improving processes all the time.

**Relationships** is a term that covers a wide range of alliances and collaborations.

One of the relationships that Kanter saw was stakeholder alliances. These are formed between complementary stakeholders along different stages of the value chain.

Kanter saw the greatest impediment to implementing these four new wisdoms was social barriers. In particular, she was concerned that rigid, hierarchical or bureaucratic structures would inhibit the changes and acceptance of change that these wisdoms require. This has echoes in the McKinsey 7S framework.

## **8.9 Examples and Case Study Approach to Strategy**

How have military and business educators taught strategy development?

They have mostly employed the case study approach. Military strategists pore over past battles. They are dissected and examined and re-enacted.

What was done, what was not done and what could have been done are studied. Then new situations are hypothesised and the military students assess the strategic options and formulate battle plans. These are evaluated by experienced practitioners or else they are run through simulations – either in the classroom or on the field (war games).

Business strategists have followed much the same approach. Business schools largely adopt the case study approach. The quality of the analysis depends on the quality and realism of the case study and the ability of the facilitator to run and debrief the case. Business schools such as Harvard make a fortune selling their case studies to other business schools.

It is from working through many examples – both case studies and reading – that the student of strategy builds competence and fluency. This is similar to our aspiring chess grand masters who pore over thousands of games played by masters.

The ultimate test, of course, is to run a situation in real life. However, this does not necessarily lead to the best learning since a real life play can usually only accommodate one “answer” or strategy at a time – the one that is implemented. As well, it may take several years before the success of the strategy can be determined.

So after learning the principles and guidelines of strategy, the public sector manager then needs to gain practice and breadth by considering many examples and undertaking several good case study assessments.

Such an approach is typical where real life experience can be very expensive if we get it wrong. For example, bank lenders have adopted the case study approach rather than have new lenders learn the hard way and make poor loans too often.

*“Experience keeps a dear school, yet fools will learn in no other.”*

~ Benjamin Franklin

*“Happy is he who gains wisdom from another’s mishap.”*

~ Sententiae, circa 43BC

## 8.10 Creativity in Strategy Formulation

However, you do not have to follow anyone's prescription or past successes.

Most situations have their own unique characteristics and your solutions may need to be unique. Consultants or others espousing a generic strategy are to be avoided.

*Do not repeat the tactics that won you a victory, but vary them according to the circumstances.*

*He who can modify his tactics in relation to his opponent and thereby succeed in winning, may be called a heaven-born captain. ~ Sun Tzu*

Can you be creative and innovative? Certainly, you will look at other examples but be free to adjust, adapt or modify.

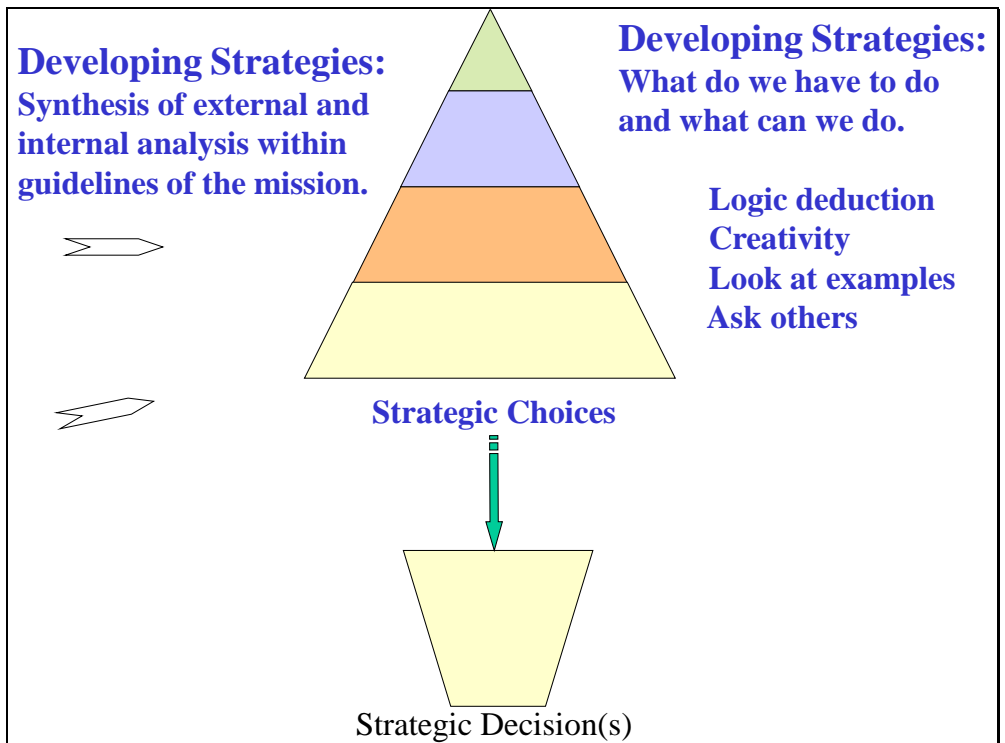


Figure 8.4 Summary of Strategy Formulation



**Can we avoid the crowd and find creative responses to the situation?**

## Key Points

1. When we analyse our environment and our capabilities early, we usually can develop several potential strategies.
2. A strategy is a set of integrated decisions that position us in our environment to best achieve our goals and mission.
3. Our strategies will be an outcome of our environmental and capability analyses. This will place a limit on the logical possibilities.
4. SWOT analysis gives a logical process for developing apt strategies. The guide is to build on our strengths and offset our weaknesses while seeking opportunities and defending threats.
5. Our strategies can range from the long term grand strategy for the whole organisation down to the short term strategies and tactics of a program or activity.
6. We gain experience in devising and evaluating strategies by looking at many examples and case studies.
7. Gifted strategists can go beyond proven methods by adding creativity and innovation to their ideas.



## 9. Step 3b: Assessing and Deciding Strategies

### What should we do?

#### 9.1 Making Choices or Preferences: CRAFT

You now need to evaluate your strategic choices and decide on the preferred strategy. Which are the best choices and what are the factors we should bear in mind?

A helpful mnemonic is to **CRAFT** your choices. How do your strategic choices score or stand on the following standards?

**Congruent:** Do your strategies run with or against the other strategies of your activities? This is especially important if your strategy is for a unit within a larger organisational structure. Your strategy should preferably not run counter to, or spoil, the strategies of other business units. Even more importantly, your strategy should support the strategies of units further up the hierarchy or even the organisation as a whole. (See the Levels of Strategy pyramid in the previous chapter).

**Risk:** How do your strategies rate in terms of risk? What will they cost your department or agency or program if they go wrong or do not achieve the goals? How can your strategies be changed or mitigated as risks arise? Is your strategy robust or is it so fragile that the slightest problem will cause failure?

**Apt:** Are your strategies apt or appropriate for the environment as per your analysis? Do the strategies fit with your organisation or unit capabilities? Do you have what it takes to implement these strategies?

Critically for effectiveness, do the strategies address the issues?

**Flexible:** Are the strategies **flexible** or **adaptable**? Given the rapid pace of change in many environments today, adaptable or flexible strategies have considerable value. Interestingly, this echoes some of the thoughts of the “father of modern military strategy”, von Clausewitz (1780-1831).

How difficult or expensive would it be to adjust or abandon the strategy if it is not working? This is sometimes referred to as **low regret**.

Note that a flexible or adaptable strategy does not mean we throw out the entire strategy. Rather, can we quickly modify or adapt elements of the strategy to meet the fluid conditions in which we operate?

**Timely:** Can the strategies be implemented in a timely fashion? Also, are they robust over time? That is, can they last for a reasonable amount of time or will they require constant tinkering. It is very difficult to implement successful strategy if it radically chops and changes too quickly.

We should at least consider all the points in the CRAFT mnemonic when determining which strategic choices to make.

If there is any priority to the above criteria it is virtually as per the name. First, the strategy has to be congruent and be about delivering our higher order goals. Risk is a major factor and the strategy must be apt to the external conditions and internal capabilities.

Do not delude yourself into thinking you will derive an iron clad master plan with detailed steps.

In our rapidly changing world, we need a sense of direction more than ever for our organisation. The days of having detailed directions are long gone.



Remember our character on the left. We may have to detour around obstacles.

But we must start with a map and direction or we will never get there (achieve our outcomes).

Make sure your strategy is heading in the right direction and that you have the supplies (resources) to reach your destination.

## **9.2 Testing Strategic Choices**

In addition to using the CRAFT framework to review and assess our possible strategies, we may also seek more information regarding the probability of success of our strategies and to check whether we have considered major risks.

In part, this can be done by studying widely. What has happened in similar situations in other times or other places?

We may well run simulation and scenario analysis to test the effects and outcomes of our chosen strategies.

If we are particularly concerned, we may do trials and test runs in isolated locations where the cost of failure can be limited. The National Broadband Network roll-out adopted this approach – albeit slowly and behind schedule. The NDIS scheme trial launched in Newcastle – probably the most commonly used test market in Australia. Newcastle is big enough to have a good sample size and demographic cross section with its own media outlets, hospitals, university, law courts, etc.

### **9.2.1 Scenario Analysis**

Allied to the case study approach is scenario analysis. Again, this is also used in military strategic training.

The major differences to just using a case study are that we “play out” scenes which will include people taking the role of clients, suppliers, stakeholders, staff, competing agencies and so on. As well, we can play real scenarios: what is happening for our organisation rather than looking at some third party case.

Well run scenario analysis can be very insightful. At the least, it forces us to consider game theory and reactions to our strategies and tactics. Rather than be a simple rehash of what we already know, the reactions of other players in the scenario gives us pause to stop and reconsider.

It often surprises senior managers, how much knowledge of both the external and internal environments already exists in the heads of the staff

members playing in the scenario. Consequently, we frequently achieve a rich and varied play of possibilities and real insight. We also challenge internal beliefs and myths. If there are major gaps in our knowledge (e.g. we do not know a stakeholder's true preferences or the full cost of delivering a service) then this deficiency is soon apparent and we know what additional information we need.

We may even invite clients or other stakeholders to participate in scenarios where we will not be disclosing sensitive information.

Scenario analysis is also useful for making staff feel included in the strategic development process.

### **9.2.2 Simulation**

Simulation and scenario analysis are terms that can be sometimes used interchangeably. In this text, we will define simulation as computer simulated scenarios or modelling.

The public sector is known for large and complex computer simulations of the economy. However, it can be worthwhile to run some simpler simulations on smaller scale policy decisions.

#### **Example: Federal Treasury and Corporate Tax Cuts**

We ran simulations with Federal Treasury when they were trying to understand the impact of changing the corporate tax rate. The huge econometric models gave vague results.

Some simple Excel spreadsheets quickly demonstrated that small changes in corporate tax rates had only very minor impacts on company profits and decisions. The impacts were minuscule compared to changes in exchange rates, sales margins and volume of activity. This view was back tested by the lack of interest by companies to the Treasury papers issued for discussion. Out of the millions of Australian companies, less than 200 responses were received. They were mostly from industry lobbying bodies or the usual suspects receiving favoured tax concessions.

The simulations left the Treasury officers flummoxed as to why there was such lobbying for cuts in the corporate tax rate. The answer is that is a “free kick”. It does a minor boost to after tax profits with no effort required.

Some logic and primary school maths also expose the myths. Small business tax rate was reduced from 30% to 28.5% from July 2015 and to 27.5% in 2017. This was supposed to lead to benefits such as more employment by small businesses.

Let us check the logic. A small business is generally defined for tax purpose with revenue of less than \$7 million with most around \$2 million. Most small businesses struggle to achieve a 10% margin on sales. So that would give a profit before tax of \$200,000 for a typical small business. The tax cut from 30% to 28.5% means a boost of \$3,000 for such a business! How many extra employees will be hired with this tax windfall of \$3,000? (This is also supply side economics. If there is no extra business there is no need for extra staff anyway.)

The main outcome of simulation is not to see the results of our policy but to test it for **sensitivity**. As we change parameters (for example the take up rate for a relief package or use of a new transport system), we see how sensitive or robust the policy is to small changes in the parameters. It is a risk indicator.

We first test the assumptions in our model to see if they are realistic.

### **9.2.3 Break Even**

Break even is one of the simplest yet most powerful tools in financial analysis. It is a superb “coarse sieve” of projects and ideas to see if they are likely to cover their costs. How much activity do we need to cover the fixed costs and variable costs?

Calculating the break-even volume for new project takes moments and would save a fortune in doomed projects. We have seen projects require more than the national population to be users in order to break even.

### Example: Sydney's Cross City Tunnel

In 2002, the NSW Government awarded Cross City Motorways the contract to build, own, and operate an east-west tunnel underneath the Sydney CBD. Cross City Motorways' equity partners put up \$220 million.



The tunnel is only 2.1 kms long but required 8.5 kms of tunnelling to build. Construction cost was initially set at \$680 million and major work commenced in January 2003. However, construction costs blew out to about \$800 million and some reports say the total cost was \$1 billion.

On August 8 2005, Sydney's cross city tunnel was opened by the then premier, Morris Iemma with then Roads Minister Joe Tripodi by his side. For the tunnel and the politicians, popularity proved to be elusive. By the end of the next year, it was in receivership owing over \$US500 million to the syndicate of 16 Australian and overseas banks.



*The Tunnel being officially opened by then Premier, Morris Iemma*

How did it go so wrong so quickly?

Well the Roads and Traffic Authority (RTA) awarded the contract, possibly more based on the size of the upfront fee it received than on the merits of the relative proposals. The winning consortium paid the RTA \$80 million to \$105 million (depending on which source you believe) for the right to build the tunnel – more than double what other consortia offered. It was estimated that 50 cents of the toll was due to attempts to recover this fee.

But the numbers only stacked up if enough motorists used the tunnel and paid the assumed toll.

The tunnel was vehemently opposed by most motorists due to the many road closures around the Sydney CBD done so that skirting the use of the tunnel would incur substantial time penalties. Motorists still voted with their tyres by diligently avoiding the tunnel as a protest.

You might recall the mission of the RTA and wonder how these actions fit with the mission:

**RTA mission**

Delivery of the best road transport outcomes balancing the needs of public transport passengers, cyclists, pedestrians, motorists and commercial operators.

Cynics would argue that the RTA was focused on the up-front fee and acted to support it with road closures contrary to its mission.

The “winning” consortium modelled on 30,000 cars per day using the tunnel initially, ramping up to 90,000 cars by the end of its first year. It is estimated the project needed 70,000 cars per day to meet the loan servicing.

The consortium’s consultant projected a usage of 90,000 cars per day. Where these numbers came from is a bit of a mystery. The consortium used a British engineering consultancy, Hyder Consulting.

A State commissioned study by Masson Wilson Twiney, Australian traffic forecasters, had projected 53,000 vehicles per day. Hyder have never explained how they got the numbers so disastrously wrong.

Hyder simply aggregated all the east-west routes across the city in a wide band and assigned a proportion to the tunnel. The breadth of the potential corridor appears to have been way too wide and traffic in the extremities continued to travel on established surface streets. [This was despite the RTA trying to close off routes in order to force motorists into the tunnel.]

[An executive of one of the established toll road companies in Sydney told me in 2003 that his company had estimated the maximum tunnel traffic at 40,000 vehicles a day and possible early year traffic at 25,000. He said that CCM's projections were "madness" because the pool of potential users was pretty much confined to William Street, the signalized surface arterial above the tunnel route, and not routes to the south which had been wrongly dragged in. William Street itself carried only 70,000 vehicles a day at its maximum before the tunnel, we've heard.] *TollRoadsNews.com*

Hyder also predicted strong annual growth in the number of car users with nearly 200,000 vehicles per day by 2034.

So there seem to have been very little rigour and great optimism in estimating the critical success factor for the project: how many vehicles would use the tunnel.

Even if Hyder had got the numbers right on demand, someone forgot to use the calculator of common sense on supply. A 2x2 lane highway can only handle about 50,000 to 70,000 vehicles per day with standard distribution of traffic. So even if the Cross City Tunnel could have demand for 90,000 cars per day, it could not manage to put them through the tunnels without major delays. As for nearly 200,000 cars per day in the later years of the project life, you would need 8 lanes of tunnels, not 4.

At the full priced tolls, the most number of users ever recorded was 30,000 cars per day, less than half of break even. Even at half price tolls, less than 40,000 cars used the tunnel.



A billion dollars was spent based on fairyland projections that could not even be physically achieved. This may help explain other private - public – partnership failures including railway links to airports in Brisbane and Sydney.

### **Postscript**

The Tunnel project was bought from the receivers by Royal Bank of Scotland, EISER Infrastructure Partners and Leighton Contractors in 2007. In September 2013, still well under break-even with less than 40,000 cars a day and the State Government claiming \$64 million stamp duty on the purchase, the new owners put the project into receivership for the second time.

Infrastructure owner, Transurban bought the 2.1 kilometre tunnel off the receivers in 2014 for \$475 million: less than half of the construction cost. The toll by 2020 was nearly \$12. Traffic volume figures were not given for 2020, but the more popular (and cheaper) Harbour Tunnel was averaging less than 74,000 vehicles per day in 2020.

Common sense and just a calculator can go a long way!

### **9.2.4 Decision Impact Matrix**

The Decision Impact Matrix is a neat tool that has been mostly used in the public sector and is now attracting attention in the private sector.

It is a visual device to help us determine what factors we should consider in our scenario and simulation analyses and what contingency plans should we consider.

The tool does not aim to be precise but instead plots impacts against probabilities, normally just into high, medium and low categories.

There can be some guesswork in the categorisation but experience and some analysis should assist. Just avoid the senseless optimism displayed in the Cross City Tunnel example above.

In the lead up to the 2010 Commonwealth Games in Delhi, a British terrorist “expert” stated there was an 88% probability of a terrorist attack during the games. Most experts guffawed at such precision in estimating the probability. It reminds us that 94% of statistics are made up.

If you can manage to assign a high / medium / low (or similar) ranking to the probability of an event occurring in the time period of your strategic planning, you are doing well.

Next, categorise the impact such an event would have: again, high / medium / low will suffice. The impact need not be expressed in monetary units. It could be in lives or welfare or embarrassment to the agency or department (sometimes called reputation risk).

We then have an uncertainty or impact matrix similar to below.

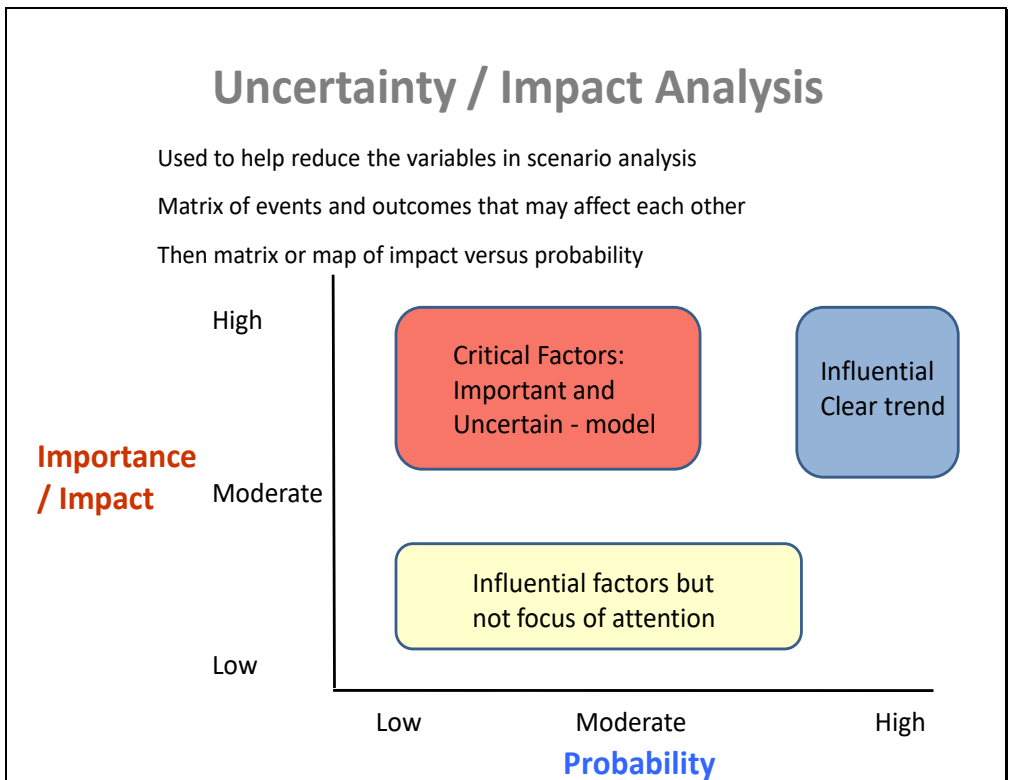


Figure 9.1 Decision Impact Matrix

The top right hand corner of high probability of occurring and high impact if it does occur is not the scenario we model. It is so clearly our main priority that it should form our base case. This situation is what our strategies must address.

The bottom of the diagram and to the left of the matrix does not command much attention from us. Otherwise we will waste too much time chasing shadows and considering every possibility.

It is the factors with the high impact but with low to moderate probability of occurring that attract our simulation and scenario testing. What will happen if these events occur and what should we do about them? Perhaps we need some contingency plans. Perhaps we may need to modify our base case strategy so that it is more flexible and can more readily handle an occurrence of these critical factors.

### **9.3 Change Over Time**

Despite the effort from all the above steps, we need to realise that no strategy lasts forever. Conditions do change.

Our strategy may have a sunset and may have achieved its aims. Therefore, neither the strategy nor its program should continue. Should the Legacy charity continue on today? Has it passed its use-by- date?

The current CEO of Legacy is seeking to redefine its mission to give the organisation relevance today. On its web page, Legacy claimed it looked after 100,000 widows. This seems a very high number given our lack of major wars for nearly 50 years. The pictures and stories are all of the elderly who are already receiving pensions and services from other agencies.

Legacy Australia was formed in 1923 to help spouses and dependents of those who died in war. In 2014 Legacy claimed to support 1,900 children and disabled dependants along with the 100,000 widows. By 2016, the claimed numbers were 1,500 children and 80,000 widows. By 2020, the war widows had dropped to 50,000 and by 2025, Legacy forecast this

number to halve. Has Legacy's mission largely passed away? They are now even advertising for grandchildren of war veterans to come forward to claim benefits! On their latest published financial results, income was over \$1.4 million but only about \$300,000 was paid out as benefits (tertiary scholarships) or distributed to clubs. The rest went on salaries and other running costs. Meanwhile, the charity is sitting on over \$3 million of financial assets it cannot find where to distribute. Yet it still seeks donations, competing against other charities.

For all agencies we should consider whether changes in clientele or in technology or resourcing priorities mean the strategy or goals should be reviewed.

We must review the efficacy of our strategies and change when necessary. Preferably change **before** it is necessary.

This requires constant or at least frequent monitoring of the environment, including clients, stakeholders and technology. It means looking ahead and determining the direction of change.

This is what makes strategy so interesting and challenging.

## 9.4 Summary

In this and the preceding chapters, several techniques and steps have been presented as guidelines for developing and choosing strategies.

This stepped approach to strategic analysis and strategy formulation has been necessary for those learning about strategy development.

However, it would be a grave error to consider that the analysis and the strategy development are rigidly formula driven.

Two of the most valuable attributes of the strategist are creativity and risk taking.

To be able to break the mould and devise a new strategy that achieves the results faster, better and more efficiently than ever thought possible is the ultimate achievement for the strategist.

In choosing the best strategies, we have considered several criteria. One was the CRAFT mnemonic. We also do cost – benefit studies. We poll our stakeholders to see if they are satisfied.

We then test our strategies. We check against our mission to ensure we are still moving towards the bigger picture. We conduct scenario and simulation analysis to consider the risks and impacts.

The diagram below summarises some of the tools available to the strategist for choosing appropriate strategies.

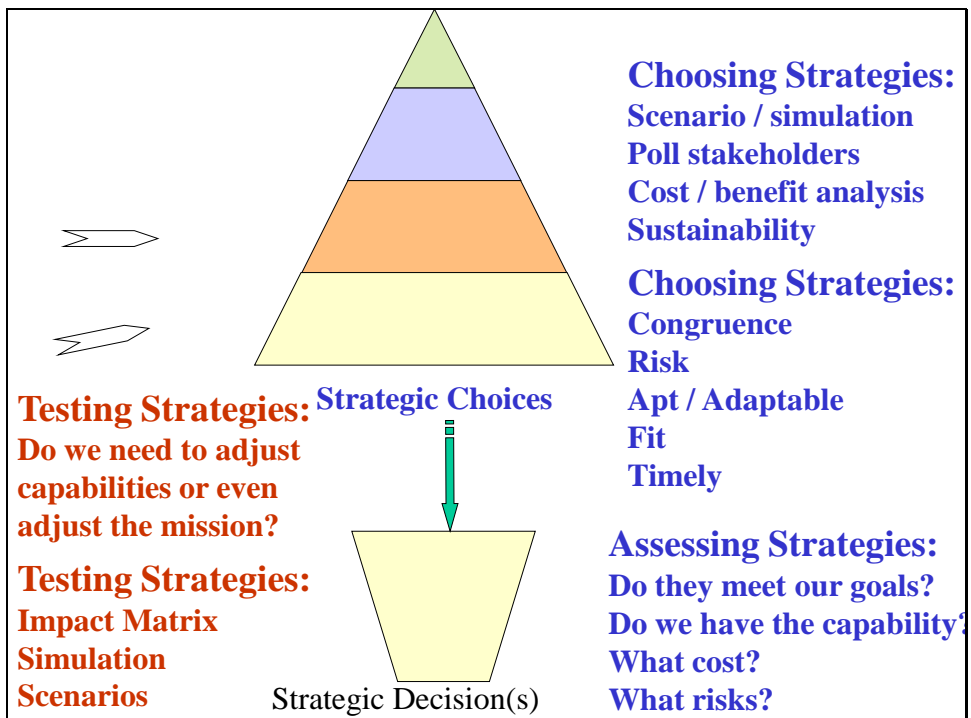


Figure 9.2 Strategic Choice Tools

## 9.5 Final Word: Revising the Mission

It is possible that after all our analysis, there is not a suitable strategy that will achieve our goals given the environment and our capabilities.

We are then left with three alternatives:

1. Set ourselves up to fail. Proceed anyway and bear the consequences. This is certainly not optimal.
2. Invest resources (time, money, etc) to build sufficient capabilities to be able to implement a workable strategy.
3. Revise the mission. Argue and market for a change in the mission to one that can be achieved.

This last alternative was the smart move by the Reserve Bank of Australia.

### Key Points

1. **Our final step to devising strategies is to choose the best alternative(s) from our strategic options.**
2. **The CRAFT mnemonic is a guide. Are our strategic decisions Congruent to achieving our mission and helping to achieve goals in the next level above in our organisation's hierarchy? What are the Risks? Are our strategies Apt to the conditions? Are they Flexible enough to change if necessary, without great cost? Are they Timely to be implemented readily?**
3. **We should test our strategies before committing. Scenario analysis and simulation models are tests, especially for risks. Just a calculator for break-even analysis would save us from many strategic disasters.**
4. **The decision impact matrix helps us to focus on what risks need to be managed.**

5. **It is expensive and confusing to change strategy, but if the world changes, then our strategy probably needs to change too. In any case, strategies should evolve over time as conditions develop.**
6. **Finally, it may be that we cannot formulate a successful strategy to achieve our mission given the state of the environment and our capabilities.**
7. **Logically then, we either must build new capabilities or adjust the mission to what is achievable. The alternative is to be set to fail.**



**If our future is no longer attractive, can we reinvent ourselves and our mission?**



## 10. Plans and Actions

Setting the mission and objectives was the prelude to the strategic process. We then covered the strategic process steps of:

- ❑ External analysis
- ❑ Internal analysis or capability assessment
- ❑ Developing strategic choices
- ❑ Selecting the appropriate strategies

The culmination of the analysis is the devising of specific plans and their implementation into **action**. This is a field of study in itself and beyond our defined scope of strategy for this book. Yet without action, strategy is impotent. Here, some overview of planning with a call to action is offered.

### 10.1 Plans

Plans are a “scheme of action or procedure: a plan of operations” (Macquarie Dictionary).

Plans are the co-ordination of tasks and operations to fulfil the objectives. By meeting the objectives, we should achieve the goals. By meeting the goals, we should be moving towards achieving the mission.

As with goals and objectives and with strategies, there is a hierarchy of plans. In this case, it is in two dimensions.

There is a hierarchy by the organisation: there are department plans; function plans; activity plans and so on.

The second dimension of plans is with time. Plans are categorised by different time scales.

There is the broad long term plan which will encompass major strategic directions. This may be a 5 or 10 year plan.

There is an intermediate time frame of 2 to 3 years which will cover expenditure on capital equipment, development of personnel, etc.

There will be a detailed one year plan. This is often called the **budget** although that is really only the expenses with perhaps some revenues.

The one year plan will have detailed actions and responsibilities and will have the budget as a financial subset of the one year plan. As much as possible, most of its numbers will be eventually expressed in dollar units.

Preferably, as we have said, the one year plan is more than just the budget numbers. It is the scanning of the environment and assessment of our capabilities, even in just the one year horizon, that makes our planning “*strategic planning*”.

As well, by being “strategic”, we maintain the priority of being effective before being concerned with being efficient. Are we doing what we should, in order to achieve our goals?

## **10.2 Measurement**

A major cause of disconnect between strategies and implementation is the failure or inability to measure outcomes in a timely manner.

Our objectives should be measurable so that we can review them and determine if they have been achieved in an unambiguous manner. As discussed above, one of the causes of failure of strategy implementation has been the lack of clear and measurable objectives.

Even if we have trouble defining “**good outcome**”, we can still refine our measurement.

**Benchmarking** to similar organisations or tasks may be possible. Comparisons to organisations in other jurisdictions or markets may lack standardisation.

If all else fails, we can at least fall back to **trend analysis**: are we getting better or worse over time?

A final note on missions, goals and objectives: It is not effective if too much time and resources are expended to assess whether or not we have achieved the objectives.

Part of being SMART is that the objectives should be measurable. But we need to measure what is important and to be able to measure it without excessive cost. Surveys, for example, are notoriously unreliable, often invalid and generally expensive. Are there more readily available statistics? Seek readily available measures or indicators.

### **10.3 Strategy Implementation and Actions**

Without action, strategy is sterile. In the Ascent of Man (1973), physicist turned anthropologist, Jacob Bronowski, considered the importance of the mind and the hand in the cultural ascent of our species. He surmised that the hand (doing) dominated the mind (thinking). We need to do – and we learn much from the act of doing.

The detailed plans will have timetables and names of those responsible for delivering on certain actions. When people are accountable and their outcomes are checked within time frames, things happen.

When progress, or its lack, is part of regular management reviews of the plan and results are widely communicated, people respond.

The strategic plan must be a living plan – not something done to appease the hierarchy and then consigned to a bottom drawer.

**To live**, the plan needs to be:

Realistic

Related to the operating environment and organisational goals

Fluid – not cast in stone

Used (at least in monthly reviews)

Have responsibilities assigned

Have milestones

Linked to budget

**To implement, we need:**

A committed leadership

At least minimal levels of the McKinsey 7S factors: structure, staff, skills, strategy, systems, style, shared goals

A plan to implement (seriously, you need to plan to implement the plan to overcome the negative forces and obstructions)

Make strategic planning and implementation a habit rather than an annual retreat

**Tips to better implementation:**

Establish the goals and articulate into measurable objectives

Promote the suitable culture

Set some early and achievable goals (build success at winning)

Celebrate wins and successes

Seek new ideas and opinions – welcome diversity

Do not be distracted or be nibbled away by bureaucratic minutiae

Delegate

Empower by having inclusion

Build allies – up, down and sideways

Neutralise the negative forces

Be passionate

Translate and communicate (and check that the message has been received)

Strategic Planning is an ongoing and continuous process (Erica Olsen)

Key steps are shown in the diagram on below.

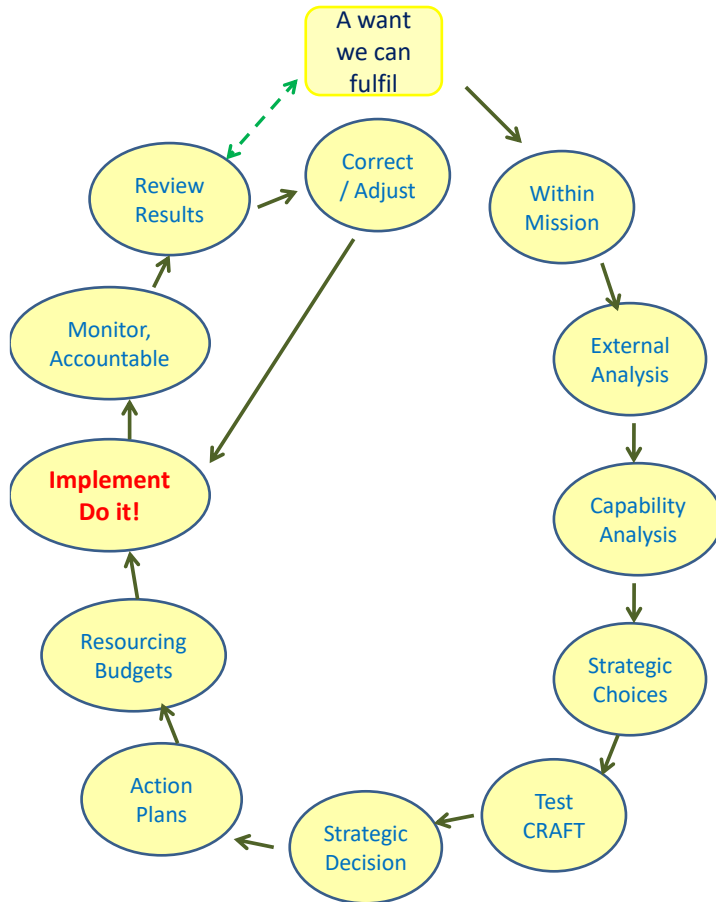
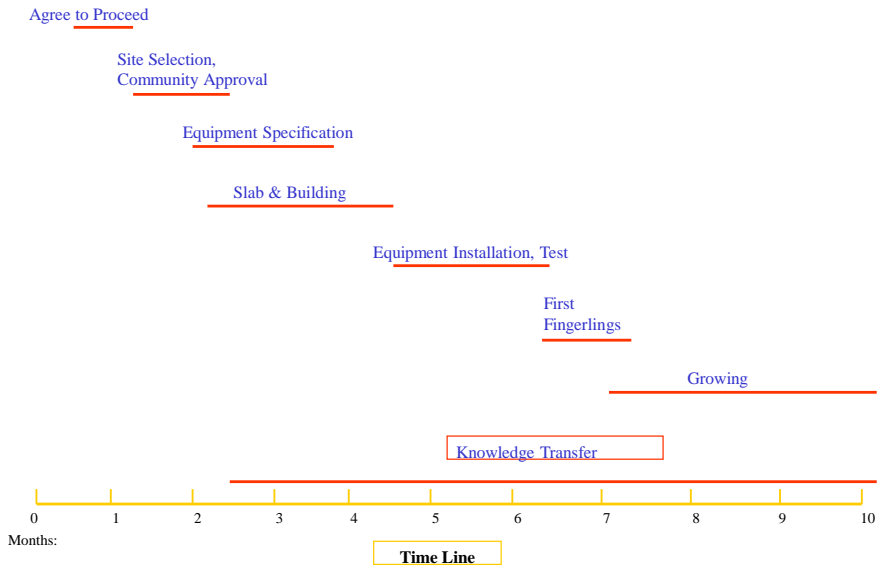


Figure 10.1 Processes from Mission to Action

There are numerous tools to aid planning. A simple and effective visual representation of plan tasks and responsibilities is the Gantt chart. Time lines and responsibilities are clearly shown and the order of tasks depicted. A simple Gantt chart for building a demonstration fish farming facility in Mauritius is shown.

## Mauritius Aquaculture Planning Gantt Chart



On a large scale project we may use mapping techniques like PERT (Program and Evaluation Review Technique) or CPM (Critical Path Method).

The basic steps for both models are:

Analyse and break down the project in terms of specific activities and/or events (like a Gantt chart).

Determine the interdependence and sequence of activities and produce a network.

Assign estimates of time, cost or both to all of the activities in the network.

Identify the longest or critical path through the network. To have the shortest project time, this is the path that cannot afford to be delayed.

Monitor, evaluate and control the progress of the project by replanning, rescheduling and reassigning resources as needed.

## 10.4 Have Your Strategy and Plans Succeed

First, we recognise that a good strategy and plan do **not guarantee** success. They give a good reasoned chance of success.

Sometimes a strategy and plan flounder because all the planets were aligned against them. They were swamped by recession or a sudden disruptive technology or change of political will. It happens. Fortunately, with good strategy, planning and implementation, it happens rarely. A great strategy should also have considered and taken into account such critical risks.

Very rarely, poor strategy and planning achieve the results. It is as likely as Steven Bradbury winning gold at the 2002 Winter Olympics in the 1,000 metre sprint. You would need all the front runners to fall over and you to be so far behind you could skate around their tangled mess. It is so rare it is newsworthy and now many years ago!



Alas, we too often find that our strategic plans do not deliver the results we had planned or hoped and not because of bad luck.

Generally, it is our ineffectual implementation of strategies that causes the most shortfall in strategy, rather than the strategy itself.

### **Poor Fit with Capabilities**

Sometimes, it may be that our strategies were inappropriate to our internal capabilities. We did not have the strengths or attributes required for success. Alternatively, our weaknesses may have been too significant and we should have either chosen a strategy that made the weaknesses less critical or invested in reducing the weaknesses.

### **Lack of Will and Follow Through**

Often it is a lack of will and focus to push through with thorough implementation. It may even be sabotage by other forces. Some people and agencies may want you to fail. Your strategy realistically needs to take such sabotage into account and neuter it.

As well, we have a tendency not to check on progress, not to measure goal attainment, not to hold those charged with implementation to be held accountable, not to take risks and not to move outside of our comfort zones.

### **Not Marketing the Strategy**

Frequently, the head of the agency or program does not give enough attention to “selling” the plan. A simple but correct and motivational pitch needs to be made to those tasked with the plan implementation. Studies show that the defining characteristic of leaders is that they are **story tellers**.

Leaders take a complex situation and weave a story that explains what is happening and what the organisation is going to do. These leaders simplify a complex world and give us direction.

Such a simple message does not mean the leaders are simple or that their analysis is simple. If questioned on their story, good leaders can demonstrate the logic and detail behind it. But they tell the audience a simplified version. Good story tellers adjust the message for different audiences: boards; staff; clients; Ministers.



## **Killers of Strategy**

Michael Beer and Russel Eisenstat, (Sloan Management Review, Summer 2000) wrote of “The Silent Killers of Strategy Implementation and Learning”. They list six killers of strategy:

1. Top down, laissez faire management (and trying to avoid conflict)
2. Conflicting priorities / competing strategies
3. Ineffective top management team: acting in silos; building fiefdoms
4. Poor communication: belief management is hiding; leads to cynicism
5. Poor co-ordination; battling for resources
6. Inadequate down-the-line leadership and management skills

Consider organisations that exhibit several of these factors and you will find an organisation that is unable to implement its strategy (Sydney Ferries example again).

Beer and Eisenstat then show the changes that need to be made to these strategy killers in order to have implementation:

1. Management style of top down direction and bottom up influence
2. Clear strategy , clear priorities
3. Top team with general management perspective
4. Open dialogue up and down
5. Effective co-ordination
6. Down-the-line leadership and skills, authority and accountability

Gary Hamel goes even further in his Rules for Radicals, developed in Competing for the Future with CK Prahalad in 1996 and Leading the Revolution (2002).

**Hamel's Rules** are:

1. Have we developed a coherent point of view about the future of our operating environment?
2. Have we written down a written declaration of beliefs, a manifesto?
3. Have we created a coalition of allies?
4. Have we carefully picked the ramparts we intend to assail (focus and targeting)?
5. Have we co-opted and neutralised the anti-change forces in our midst?
6. Have we found a translator who can put into motivating words for different constituencies, the terms of the revolution?
7. Have we set achievable goals – winning small, winning early and winning often? (A Sun Tzu theme)
8. Have we curbed the Stalinist practice of resource allocation and replaced it with resource attraction? (Worthwhile projects should be able to gain the required funding and other resources).

If Hamel sounds radical in the conservative environment of the USA, it may help to understand that he was apparently influenced by Saul Alinsky, the firebrand strategist on public sector labour activity in the USA during the 1940's to 1960's.

Alinsky started in the poor neighbourhoods of Chicago. His belief was that the most effective means are whatever achieves the desired ends. He thus

echoes Machiavelli but he makes Machiavelli look “soft” and compassionate by comparison.

Some of **Alinsky’s ideas** were:

Tactics mean doing what you can with what you have. Tactics are those conscious deliberate acts by which human beings live with each other and deal with the world around them. In the world of give and take, tactics is the art of how to take and how to give. Here our concern is with the tactic of taking; how the Have-Nots can take power away from the Haves.

Alinsky’s views can be found in many of the thoughts by Sun Tzu.

Alinsky’s rules for radicals were:

The first rule: *Power is not only what you have but what the enemy thinks you have.*

The second rule: *Never go outside the experience of your people. When an action is outside the experience of the people, the result is confusion, fear, and retreat.*

The third rule: *Wherever possible go outside of the experience of the enemy. Here you want to cause confusion, fear, and retreat.*

The fourth rule: *Make the enemy live up to their own book of rules. You can kill them with this, for they can no more obey their own rules than the Christian church can live up to Christianity.*

The fifth rule: *Ridicule is man’s most potent weapon. It is almost impossible to counterattack ridicule. Also it infuriates the opposition, who then react to your advantage.*

The sixth rule: *A good tactic is one that your people enjoy. If your people are not having a ball doing it, there is something very wrong with the tactic.*

- The seventh rule: *A tactic that drags on too long becomes a drag. Man can sustain militant interest in any issue for only a limited time, after which it becomes a ritualistic commitment.*
- The eighth rule: *Keep the pressure on, with different tactics and actions, and utilise all events of the period for your purpose.*
- The ninth rule: *The threat is usually more terrifying than the thing itself.*
- The tenth rule: *The major premise for tactics is the development of operations that will maintain a constant pressure upon the opposition.*
- The eleventh rule: *If you push a negative hard and deep enough it will break through into its counterside; this is based on the principle that every positive has its negative.*
- The twelfth rule: *The price of a successful attack is a constructive alternative. You cannot risk being trapped by the enemy in his sudden agreement with your demand and saying “You’re right—we don’t know what to do about this issue. Now you tell us.”*
- The thirteenth rule: *Pick the target, freeze it, personalize it, and polarize it.*

There is a constant, and somewhat legitimate, passing of the buck. It should be borne in mind that the target is always trying to shift responsibility to get out of being the target.

One of Alinsky’s criteria in picking the target is the target’s vulnerability - where do you have the power to start? Furthermore, the target can always say, “Why do you centre on me when there are others to blame as well?” When you “freeze the target,” you disregard these arguments and, for the moment, disregard all others to blame.

The other important point in the choosing of a target is that it must be a personification, not something general and abstract such as a community's segregated practices or a major corporation or the Government. It is not possible to develop the necessary hostility against, say, the Government, or against a corporation, which has no soul or identity.

[Alinsky says your target should be a *person* in the organisation you are opposing; a face within the opposition for you to focus on; it must be someone with power within the organisation, like the CEO, Department Secretary, school principal, Premier or Prime Minister.]

As an aside, Alinsky was the subject of Hilary Clinton's senior honours thesis at Wellesley College, although she rejected his grassroots community action as "outdated".

Hopefully, we are in a more civilised society than Alinsky's no-holds barred, take no prisoners, world. Alas, we have seen it too much in Australian politics for much of this century.

We also reject Alinsky's approach, not because it is outdated but as too short term and damaging. Alinsky's ideas are really a throw-back to military strategy where you seek to win a battle or a war without consideration of longer term consequences.

In our strategies, we seek win / win outcomes and not win / lose. We also need to live with our decisions and stakeholders in the longer term.

## **10.5 Summary**

The most damning criticism of strategic management is that it does not always deliver the superior results we planned.

Such a failure is generally due to poor implementation of the plan rather than the plan. We do not champion the plan and push through when there is often resistance or at least hubris.

We too often do not “sell the plan” but instead have either some fluffy motherhood statements or else so much complexity that little is understood. A successful plan includes a section on how it will be marketed and how stakeholders will be brought to support it.

Lack of follow through and not devoting adequate resources are other common failings.

Finally, we do not always measure and monitor as tightly as we could. We need clear assignment of responsibilities for the actions required in the plan. Those responsible for implementing the plan should be held accountable: for good and bad.

The summary processes in the planning and moving to action are depicted below.

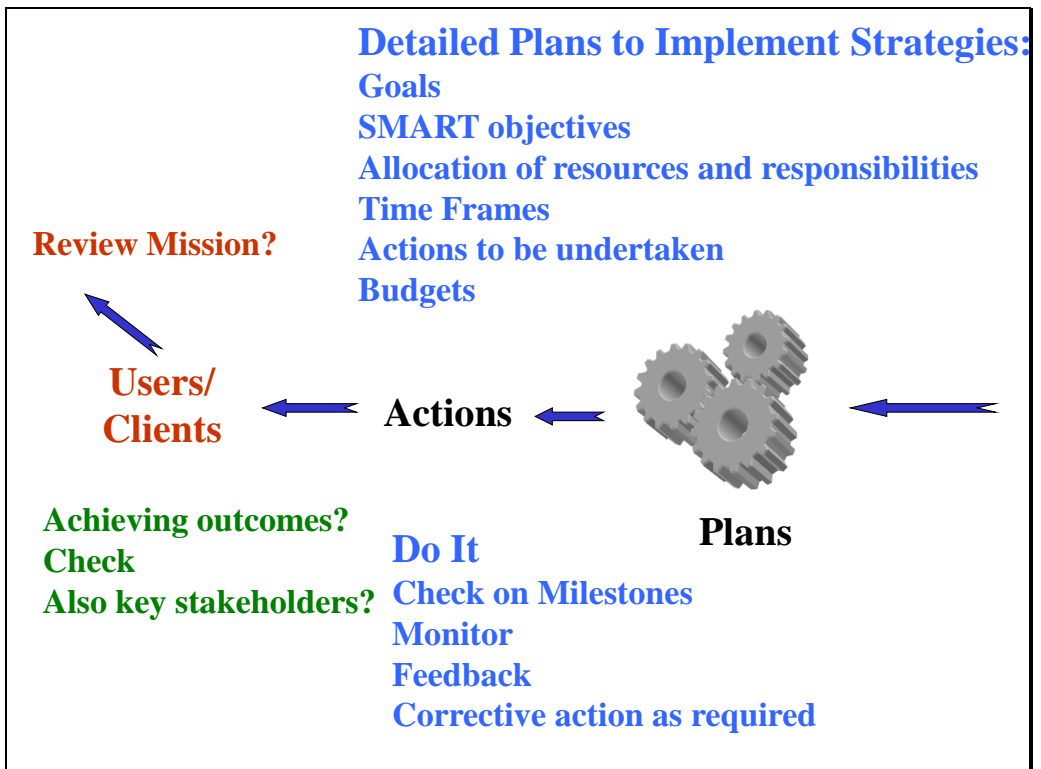


Figure 10.1 Summary of Steps to Implementation

We will finish this book with practical recommendations on how to improve your strategic analysis and formulation and how to improve the implementation of your plans.

First, an example of changing stakeholder requirements.

### **Example of Stakeholder Changes Corrective Services of New South Wales**

In terms of education and employment of prisoners and time out of cells, New South Wales has long lagged behind the national average.

But it was escapes from custody that were proving the most embarrassing to the Government and its Minister for Corrective Services. In 1995/96, escapes from open custody ran out at 4.8 per 100 inmates (4 times the national average).

Media shock jocks were having a field day lambasting the Government.



So in 2002, Ron Woodham was appointed the new Commissioner. He had begun his career in the Corrective Services 32 years previously. Ron was an experienced prison guard and he delivered on cutting the escape rates. To be fair, he introduced other initiatives too.

As one of his Ministers said:

“Anyone can run Corrective Services when Ron Woodham is in charge” - John Hatzistergos.

Ron Woodham was considered to be “bullet proof” because of his ability to keep prisons off the front page news.

**Escape rate (per 100 inmates)\***

	2005 /06	2006 /07	2007 /08	2008 /09	2008/09 National average	2009 /10
<b>Security</b>						
Open	0.37	0.17	0.16	0.31	0.57	0.06
Secure	0.07	0.00	0.02	0.06	0.02	0.01

\* National Correctional Indicators counting rules.

Escape rates generally stayed low with the occasional blip such as from secure custody in 2009.

However, the world of correctional services became more complicated. Education rates, recidivism, time out of cells and other measures of performance were lagging the other States and best practice.

As well, with political pushes for stricter sentencing, jails were becoming crowded and expensive. It was costing a billion dollars a year to run Corrective Services.

Cost pressures, allied with a desire to reduce recidivism meant that the Government’s goals became more complicated. Richer strategies than “locking them up” were needed. In 2011/12 time out of cells for secure inmates was less than 6.9 hours a day compared to the national average of 9.3 hours. Ron Woodham’s position was not helped by 2011 being a “blip year” when escapes rose slightly.

With a change of Government, there came a change in the Corrective Services and its goals. Corrective Services lost its own Minister and Department. It was folded into the Justice Ministry and its new Minister saw Corrective Services as just one arm of the Justice system. The important goals were now administration of justice, use of technology for sentencing alternatives, reduction in recidivism and cost control rather than the number of escapes.

Ron Woodham’s contract was not renewed in August 2012.





The new Commissioner was Peter Severin and he generally describes his position as Chief Executive rather than Commissioner.

He was a social worker in Germany before joining the Queensland and then South Australian Corrective Services. He added a Master’s Degree in Public Administration to his degree in social work.

Peter Severin’s proudest claim as CEO in South Australia was to achieve the lowest rate of return to custody (recidivism) of any Australian jurisdiction over four consecutive years.

Under Ron Woodham’s stewardship, the prime goal was preventing escapes and he achieved that goal. Now the prime goal is listed as preventing and reducing the level of reoffending. The following information comes from the department’s 2012 annual report.

## The Department’s Strategic Framework 2012–14

**1** **NSW 2021 Goal:**  
**Prevent and reduce the level of re-offending**  
 Increase opportunities for people to look after their own neighbourhoods and environments

---

**DAGJ GOALS:**

- Building safe communities
- Strengthening community crime prevention partnerships

### Strategic direction

- |  |   |
|--|---|
| <p><b>1. Effective and efficient crime prevention</b></p> <p><b>2. Diversionary programs without compromising public safety</b></p> <p><b>3. Effective and efficient interventions and programs addressing risk factors for re-offending</b></p> | <p><b>4. Effective management and supervision of offenders in the community</b></p> <p><b>5. Safe, secure and humane management of offenders in custody</b></p> |
|--|---|

The highlights of the year (below) reflect the changed priority of goals:

**17%**  
increase in offender  
program participation

The strategic directions and highlights are a high level description for public consumption. They are really objectives rather than strategies. Detailed strategies and would underpin all of the objectives.

**New**  
Intensive Drug and Alcohol  
Treatment Program

While very general, it is pleasing to see that the Strategy Directions above put being effective before being efficient!

**63%**  
program completion rate by  
Aboriginal inmates

The world changed and priorities of the key stakeholder changed. It was deemed necessary to change the capabilities and leadership of the department.

**Efficiency gains**  
through realignment of  
custodial services

## **Key Points**

- 1. Once we have devised our strategy, we need to articulate the detailed plans and move to action. Strategy without action is impotent.**
- 2. We have a hierarchy of plans from the broad plans for the whole organisation to the detailed plans of programs and activities. The level of detail increases as time frames move from long term to short term.**
- 3. The budget is actually the financial sub-set of our detailed one year plan.**
- 4. Our plans need objective measurements to indicate that we are achieving our objectives.**
- 5. Often, our plans do not yield the superior results we anticipated. This may be due insufficient attention or effort with the implementation of the plan. We lost focus or did not resource adequately or did not “sell” the plan to the necessary stakeholders.**
- 6. Leaders tell an inspirational story to stakeholders. Their analysis may be detailed and complex, but leaders simplify the message to the audience needs.**
- 7. When the world changes or our key stakeholder changes priorities, we must evolve or become redundant.**
- 8. Some tips and suggestions for developing and implementing successful strategies conclude the book.**

# 11. Conclusion and Suggestions for Success

## 11.1 Wrap Up

We began by asking should “Strategy” apply in the Public Sector.

Given the importance of the performance of the Public Sector to our society and welfare, the answer is unreservedly **yes!**

While there have been models about public choice, there has been insufficient attention given to public sector strategy. Public Sector strategy needs are different to those in the business sector. There are more complex social issues; there are diverse stakeholders; measurements are not always monetary; and, there are tighter resource restrictions.

Consequently, Public Sector managers are being pressed for more output and more relevance with few of the tools, models and other resources available to the private sector counterpart.

In particular, we find that the setting of the mission in the Public Sector is more important and difficult than the generally accepted private sector goals of profitability or shareholder value.

Both private and public sector managers need to answer the three basic questions of:

- 1. What is happening and where is it going?**  
(Environmental Analysis)
- 2. What do we have going for us or our capabilities?**  
(Internal Analysis)
- 3. What can and should we then do to achieve our mission?** (Strategic Choices and Decisions)

We have canvassed a number of tools and models available to the public sector strategist to aid answering each of the above questions. They remain tools and are not prescriptive steps to be doggedly followed.

Ultimately, we need public sector managers with skills and strategy experience so they may gain insight from the analysis to formulate good strategic choices.

Much of this experience will come from reading, examples and case studies, as well as the more expensive “school of hard knocks”.

The astute manager will then assess the possible strategic choices to determine which choices are the better options.

Strategy formulation is impotent unless enacted. Plans, strategic plans, budgets or whatever, articulate the broad strategy into detailed actions, responsibilities and timeframes. The use of measurable objectives helps tighten the strategy to achievable bites and allows accountability.

Lastly, we need to sell or market the plan to have buy-in and to enact the plan.

Milestones, celebrations and even some Machiavellian type tactics may be required. However, it is hoped that the ends do not need to justify the means.

A good strategy should achieve the ends or goals while remaining ethical and without reputation risk.

After all, our overall mission is for the benefit of society.

## **11.2 Some Tips and Suggestions**

Strategic analysis and formulation are complex tasks. They are probably the most intellectually challenging tasks of senior managers. Strategy formulation is also the main defining role of the senior executive. It is what distinguishes the leader from the administrator.

We have outlined a process and shown some tools to help with the task. However, intelligence, awareness and practice are the keys to developing fluency and expertise.

Following are some of the tips garnered over the years from ours and others' experiences.

1. **Simplify!** Reality is so complex that you will never fully accommodate it and you will lose too much time. Settle for a good approximation of reality in a reasonable time frame.
2. **Face reality** as it is rather than believe in some desired illusion or myth. Challenge and test sacred cows.
3. **Identify and satisfy** your key stakeholder(s). If the stakeholders or their needs change, then so must you.
4. Do rigorous analysis and derive logical solutions. Read widely and look at many **examples** to build your fluency at analysing and deriving solutions.
5. **Measure and manage the risks** of your strategies. In the real world, not everything goes to plan.
6. **Build allies.** There will be times when you could use independent support.
7. **Neutralise the negative forces.** There will be people and forces against you: some of your own staff, political opponents, and competing agencies (competing for funding, clients or power). Your strategies must take this into account as you plan your tactics.
8. Build in some **early wins.** A long strategy can lose impetus. Break it into staged milestones and ensure the first few are achieved. Then celebrate. This builds momentum, support and strength.
9. **Sell! Sell! Sell!** Just because you have a worthwhile mission and great strategy does not mean that everyone is interested or on board. You need to sell your mission and plans: to the Minister;

to other stakeholders; to clients; to staff. Tell a tailored story to each group and tell it often.

10. Keep a sense of **balance**. Life goes on.

## **A Capstone Example**

It is recommended that you always look at examples and consider what could be done.

Examples have been included through the text – some positive and some negative (what not to do).

We finish with an example that shows many smart moves. It covers setting strategic stretch goals, aligning systems and measurements to the changed goals, changing structure and staff. It also follows most of our suggestions. Milestones and quick wins were programmed in, allies built and negative forces sidelined.

The leader kept focus and momentum. He was committed.

The results were remarkable.

Let us investigate forensic policing.

### **Fingering the Crims**

This case story has its background about forensic testing of crime evidence.

We are interested in what the case shows us in terms of public strategy. How the goals were changed from operational improvement to strategic stretch goals. How culture and shared goals needed to be aligned to the strategic goals. How monitoring systems and rewards needed to complement the strategy. How the organisational structure needed to be changed so that it did not inhibit the strategy.

While reading the case, you might consider some of the aspects of the McKinsey 7S model and the use of stretch goals to deliver a vastly improved strategic outcome. As well, this was done with less resources, so efficiency was also gained, in addition to the improved effectiveness.



## State of Forensics in the State

By 2010, the Forensics Services Group of the NSW Police was falling behind.

There were about 40,000 crime exhibits sitting untouched with an average backlog of 8 months. Some exhibits went back to crimes of 3 years previous. There was a 6 months backlog of DNA samples. There were 2,200 fingerprints waiting to be assessed, representing a 3 month backlog.

This was certainly not best policing practice and not in keeping with the overall mission of a safe and secure New South Wales.

As well, technology was driving up demand. As recently as 2009, the Forensics Division was handling 6,000 items a year. By 2013, this activity had jumped sixfold to 3,000 items **per month** or 72,000 items a year.

More money and resources had been put into Forensic services over the years to try and improve the situation but without lasting benefit. Spending more money or investing in more resources was not solving the problem. Nor would small operational improvements make much of a dent in the backlog.

Pressures were mounting. In 2009, the auditor-general reported on the poor performance of the Forensic Services Group and made recommendations such as a “fast track” approach to testing fingerprints.



What was needed was a radical and strategic response.

### New Leader

Jeff Loy had joined the Police Force aged 21 inspired by the song Echo Beach by Martha and the Muffins. It was the line in the song about “*my job is very boring, I’m an office clerk*” that led Jeff to change jobs and join the Police.

Some 30 years later, Jeff applied for the promotion position to head Forensics. He impressed the selection committee with his ideas on how to get the Group on track. He promised great improvement.

When he took charge, there were nearly 1,000 staff members with slightly more unsworn (civilian) staff compared to sworn police officers.

There were 29 laboratories and Jeff found he had 9 direct reporting managers and officers.

### **Setting a Strategic Goal**

Jeff Loy began with backlogs going back months, even years.

When Jeff started, he asked the management team to come up with a goal for improvement. They responded with a target reduction of 5% in the backlog over the next 12 months. This would take the backlog from 40,000 exhibits to maybe 38,000 exhibits over a year.

This is hardly inspirational and certainly not achieving the level of service needed to meet the Police Service Mission.

It was a soft and easy target and could be achieved with just some operational efficiencies. In any case, the managers did not really expect to achieve even this modest improvement but it sounded like an easy response to the new leader without having to do much change.

Jeff rejected this target and simply imposed one: 50% reduction in 12 months. This is leading not administering. It was an inspirational goal. It is sometimes known as the BHAG: Big Hairy Audacious Goal.

While you probably will not write this goal into your budget, you do state it to your staff and go for it. Even achieving half of such a goal will still be a major improvement.

The main benefit of setting a BHAG is that it **forces you to be strategic**. You will never achieve such a goal doing what you have always done with a little more operational efficiency.

To achieve a BHAG, you need to move. You need to do new things and to do old things in a different manner. You need to think and act strategically.

### **What is Happening**

After setting the inspirational goal, Step 1 is to determine what is happening.

We do not need to spend vast time studying to the nth degree and finest detail. A good approximation will suffice. With a tight schedule, keep a sense of urgency. This keeps focus and wrong foots the negative forces. We intend to change what is happening anyway.

There were reports and the list of the backlogs. But we need to know **why** it is happening: what are the causal factors. In other words, we need to **analyse** the data to get a clear view.

At the time, the Chief Scientist was the main figure in the operational side. Scientists of course have personal goals of peer recognition and values of scientific integrity of their work rather than fast response times.

Unfortunately, this focus on professional esteem can be at loggerheads with the police in the field who want timely responses. So the main people in the Group did not have shared goals.

The senior management looked at other successful examples such as Queensland Forensics to open their minds to different methods of operation.

### **What Have We Got (Capabilities)**

Our second question towards deriving our strategies is what are our capabilities? The internal capabilities of the Division at the time were not likely to achieve the desired results of faster turnaround.

So it was necessary to change the capabilities.

In part, this was achieved by having the culture align to treating the client as paramount. In this case, it was the police in the field (and ultimately crime victims). It also required having a sworn officer put in charge of

operations rather than the Chief Scientist to ensure this focus on the clients. So structure was changed to align with the strategy.

The laboratory scientists now reported to this Police officer and their prime purpose now was to focus on servicing the needs of field police officers: their clients.

Allied to changes in structure were changes to key performance indicators. Instead of highlighting how many fingerprints were found at a crime scene, for example, the focus measurements became response times. What gets measured, gets done!

Yes, there was resistance. There is usually some resistance to changes in entrenched behaviours and systems and to changes in personal priorities. Such resistance needs to be anticipated and planned how to be countered.

There also needed to be a change from mainframe, centralised capability to a more decentralised and local capability. The 9 direct reports to Jeff were reduced to 3, allowing him more time to work **on the job** rather than in the job! A key management principle to use where you can is KISS (keep it simple stupid!).

As part of what was happening, Jeff went, in his words, “on a journey of discovery” to find out what the Forensic Services Group did and how it did it. He went through reports and mapped out the processes.

Process mapping can be a useful tool and is akin to value chain analysis. Where did the Forensic Services Group add value and where did it carry out processes that did little to help the clients? Where were the bottlenecks reducing response times?

### **What Can and Should We Do: Formulating Strategies**

This is the intellectually difficult part. It can require creativity and foresight.

What can we do to achieve the inspirational goal? The ideas rarely come from a vacuum though. Logic and deduction help (such as using the SWOT

tool). So too does looking at other examples and modifying them such as Queensland's operations.

"This was a business problem," Assistant Commissioner Jeff Loy, Commander of the NSW Police Force's Forensic Services Group, told *The Sunday Telegraph* [April 8, 2012]. "We didn't spend any extra money doing this - it didn't need money to solve the problem ... it just needed a sensible approach."

For example, as already mentioned, there had been several reports on the performance of the Forensics Services Group.

The report by the Auditor-General in 2009 had recommended adopting a "fast track" approach to fingerprint testing.

Previously, fingerprints would be checked against the top 12 suspects. But fast tracking meant only looking at the 5 most likely suspects and acting from there. If no success, only then go on to the next likely suspects. In fact, statistics show that the culprit was 98% likely to be in first 2 suspects.

This follows the Pareto Rule. Pareto was a mathematician and philosopher. You might know it better as the 80:20 rule. 80% of outcomes are caused by just 20% of the population. For example, 80% of your staffing headaches come from just 20% of your staff. 80% of your successful work comes from just another 20% of your staff. Concentrate on the top 20% before worrying about the bottom 80%.

Ideas could come from anywhere. It is the leader's job to make sure the best ideas are implemented. For example, one sergeant's wife was a nurse and she gave ideas on how hospitals treat laboratory specimens.

Another change was in the amount of evidence collected and transported. Forensic laboratories were being swamped with complete sets of evidence such as an entire blood stained T shirt. While the entire T shirt would be kept as an exhibit, only a small part needed to be sent to be tested. Now, small sealed "test tubes" with bar coding are used, taking evidence transmission and testing into the modern era.

It is common sense but that does not mean obvious or easy to implement.

From the Sunday Telegraph article: “While sub-sampling has become the hero of NSW forensics, implementing it was no easy task. Whatever the pain of getting the system online, the results appear to speak for themselves,” Mr Loy said.

"Twelve months ago if you got seriously assaulted at a nightclub, your clothing would have gone to a police station, then it would have been sent to DAL [the NSW Health Department's Division of Analytical Laboratories]. When it arrived, they would have unpacked it, sub-sampled it, and because it was an assault and low priority, it would have been six to 12 months before it got done," Mr Loy said.

"Now, sub-sampling is done at the police station, it's sent by courier to the DAL and the samples go in the robot the next day."

Even sending the samples by courier was a required change. Previously, detectives would drive the samples to the laboratory – a waste of time and resources, especially for country detectives.



Forensic Science Services Branch. NSW Police Force. Russell Plummer (Technical) Sergeant, Forensic Supervisor. Fingerprint Laboratory, Pemulwuy Picture: Angelo Soulas  
*Source: The Sunday Telegraph*

Some early wins were programmed – picking the low hanging fruit. A specialist review team was formed and went through every case in the backlog. This resulted in about 25% of the backlog being culled because the case had by now been resolved anyway or the DNA profile was too weak to yield a reliable result.

So, as is typical, the strategic plan was not just one action but many. The key is to have them integrated into an overall master plan or **grand strategy**. Then the various component plans can be delegated.

Each of the actions is accompanied by strategic measurements to track developments. Capabilities are adjusted to enable the plans to be implemented.

### **Innovation: The Phone App**

The FBI has spent tens of millions of dollars in partnership with Apple Corporation to develop a fingerprint app for the iPhone. It was hoped to be launched by late 2013.

NSW Police have been using one since 2012.

A young operator in the fingerprinting division had been playing with the concept for a while. He was encouraged to put the idea forward and presto! Initially, it was a two finger job but it has been developed further with swipe scanning technology.

The benefit is near real time scanning and results. Rather than take prints and send them to the lab to be catalogued and later checked, the prints are scanned to a phone on the scene and transmitted instantly to the fingerprint computer. The record to date between scanning the prints at a crime scene and making the arrest is 45 minutes. The burglar was still on his way home with the stolen goods when arrested. That is good client service!



## **Results and Outcomes**

Obviously there is more detail to the actions but you have seen the main initiatives. Today, the Forensic Services Group is a 24/7 operation to provide around the clock service.

The DNA backlog no longer exists. Fingerprints are nearly all assessed within 24 hours and a daily report is required on the **few exceptions** not completed in that time.

In 2012, the Group even came in under budget with savings of \$2 million. 44 positions had been deleted (clerks have been replaced by automated recording) and 12 new needed positions added.

More is to come. DNA testing is planned to be expanded through the prison population and elsewhere, such as when former offenders pass through charge rooms again. (NSW still has one of the lowest DNA capture rates in Australia). Improved decentralised biometric collection and evidence testing has been rolled out. New technology is being assessed. Improvements never cease.

## **Key Learning Points**

The situation was analysed and a strategic response delivered the results that operational and resourcing could not achieve.

The overarching or grand strategy had many components. Key stakeholders were redefined and the clients became the police in the field and through them, the victims of crime.

Some of the components of the strategic plan were about changing capabilities. Other components were about changing processes.

Goals were changed and measurements aligned to the new goals. A sense of purpose and achievement was built.

The statistics show the improvements to date. By April 2013, there was no backlog on fingerprints. It is a great success story!