

Slide 18.1

Government, public sector and not-for-profit strategies

Lynch, *Strategic Management PowerPoint on the Web*, 7th edition © Richard Lynch 2015

Slide 18.2

What is special about strategy in the public and not-for-profit sectors?

Lynch, *Strategic Management PowerPoint on the Web*, 7th edition © Richard Lynch 2015

Slide 18.3

What is special about strategy in the public and not-for-profit sectors? - 1

- What do we mean by the public sector? State provision of defence, police, health, education, transport, energy and other services that may or may not have been privatised depending on the political views of the government
- What do we mean by the not-for-profit sector? Institutions that work for the public common good but are independent of the state, e.g. charities, trusts and similar institutions
- To avoid unnecessary repetition, these institutions are simply called 'public' institutions and their strategies are called 'public strategies'
- Many public institutions do not make 'operating profits' – the founding assumption of some aspects of strategic management

Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.4

What is special about strategy in the public and not-for-profit sectors? - 2

- Public strategies are special for three main reasons:
 - Public interest
 - Public value
 - Complexity
- Public sector strategy involves the wide-ranging and ill-defined subject of the 'public interest'
- Public interest: means both the objectives and the institutions that make and implement public sector decisions
 - Examples of objectives: defend country, enforce the law
 - Examples of institutions: police, public health
- Such objectives differ from those typically found in business because they are wider ranging and reflect deep social values

Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.5

What is special about strategy in the public and not-for-profit sectors? - 3

- Public value means the benefits to the whole of the nation from owning and controlling certain products and services
 - For example, the public value of a national army or fire service
 - Needs to be considered within the legal framework that binds and governs the value
 - Requires the concept of 'equity' to ensure that the value is distributed to all citizens – may need a public regulator to ensure this
- In most countries, some products and services are *public* – like defence – and others are *private* – like commercial shops
- Each country will have its own approach to the balance between the two areas: need to conduct analysis on country-by-country basis

Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.6

What is special about strategy in the public and not-for-profit sectors? - 4

- Complexity: public sector objectives and standards are more complex than the private sector
 - Public sector objectives will relate to the social values and ethical standards of that country
 - In the private sector, measures of success include the delivery of profits and the satisfaction of workers.
 - In the public sector, 'success' in defence, police or education cannot simply be measured by the 'profit' on a defence, police or education budget
- Implication: Can strategic management theories be applied to the public sector? If so, do they need to be modified?

Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.7

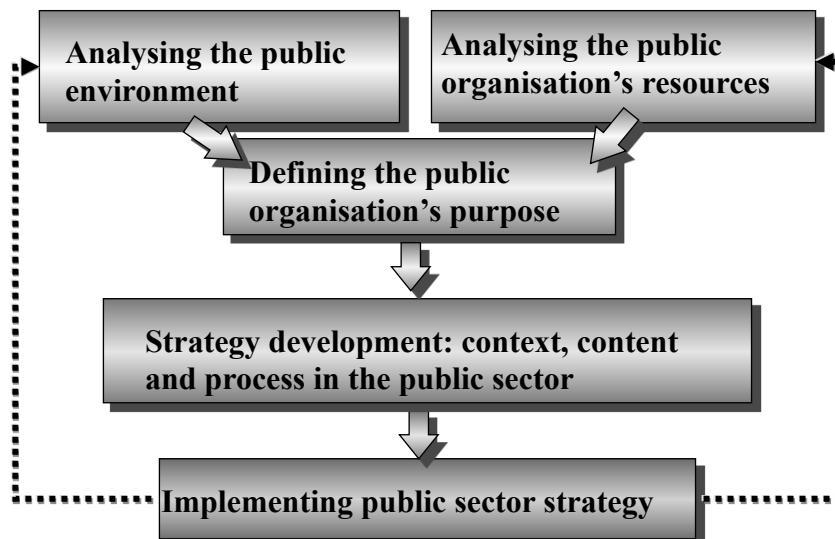
Developing strategy in the public and not-for-profit sectors - 1

- Although there are clearly differences between the public and private sectors, there are also common areas:
 - Every public body exists in an *environment* with issues that can be identified – e.g. using PESTEL analysis
 - Every public body has *resources* of people and funds with skills, competencies and knowledge that are comparable with those in the private sector
 - *Purpose* may be more complex, but it is often capable of being specified and agreed
 - *Strategies* are then developed to achieve that purpose
- Hence the underpinning assumption is that the principles of strategic management *can* be modified and applied to the public sector

Lynch, *Strategic Management PowerPoint on the Web*, 7th edition © Richard Lynch 2015

Slide 18.8

Developing strategy in the public and not-for-profit sectors - 2

Lynch, *Strategic Management PowerPoint on the Web*, 7th edition © Richard Lynch 2015

Slide 18.9

Analysing the public environment - 1

- *Public Sector Administration Theory*: governments are assumed to make decisions on behalf of *all* citizens
- Public sector theorists have argued that this is most effectively and efficiently achieved through government agencies with central decision making and resources
 - For example, one agency to manage police services
- Quite different from private sector, where a 'buyer' may or may not choose to purchase a service
- In recent years, new thinking about the public sector: centralised decision making is monopolistic, which is inherently inefficient and unresponsive to public demand
- Hence, move towards *Market Economic Theory* with the *privatisation* of some previous monopoly government services, like national telephone services, where providers compete on price and service

Lynch, *Strategic Management PowerPoint on the Web*, 7th edition © Richard Lynch 2015

Slide 18.10

Analysing the public environment - 2

- Conflict between public administration theory and market economic theory – political opinion has now shifted in some degree towards the latter in many countries – *privatisation*
- Balance between free markets (*laissez faire*) versus centrally directed model (*dirigiste*) underpins this political choice:
 - Countries like the USA, UK and New Zealand have moved towards *laissez faire* policies
 - Countries like France, Italy and Greece still favour *dirigiste* policies with state-owned companies and state intervention
- But degree of shift towards market economic theory varies between countries for reasons associated with political, economic and social beliefs and values
- Analyse country-by-country and respect the values of each country

Lynch, *Strategic Management PowerPoint on the Web*, 7th edition © Richard Lynch 2015

Slide 18.11

Analysing the public environment - 3

- Three main factors in analysing the public sector environment:
 - Market mechanism
 - Concept of public value
 - Stakeholder power and complexity
- Market mechanism: the means by which the state uses competition between suppliers, market pricing and quasi-market mechanisms to determine the supply and demand of goods and services that were previous state monopolies
- Market mechanism will be an important determinant of public sector strategy because it will determine the role of the state and the provision of state resources in the development of public sector strategy
- Market mechanism has both benefits and costs

Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.12

Analysing the public environment - 4

- Benefits of market mechanism:
 - Use of market forces to reduce the costs and resources of central government
 - Privatisation has brought some degree of competition with lower prices, lower levels of bureaucracy and some increase in awareness of the need to meet public demand
- Costs of the market mechanism:
 - Not possible to allow some public institutions to fail, e.g. police and defence forces, so they cannot be privatised
 - There is a need to monitor many former public institutions because near-monopolies may still exist, e.g. water services where there is only one water supplier

Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.13

Analysing the public environment - 5

- Concept of public value:
 - Public value refers to the benefits to the whole of the nation from owning and controlling certain products and services, e.g. national defence forces and police services
 - Three consequences for strategy: need for a legal framework, need to treat everyone equally and the need to remedy the problems that occasionally arise
- Stakeholder power and complexity:
 - Stakeholder power is exercised by those citizens who are able to influence the decisions of the state
 - Perhaps through democratic vote but not necessarily the only mechanism: even in national 'democracies' there are many pressure and lobby groups
 - Important to undertake a stakeholder analysis to explore complex issues

Lynch, Strategic Management PowerPoint on the Web, 7th edition © Richard Lynch 2015

Slide 18.14

Analysing the public environment - 6

- Is it possible to employ the nine-stage environmental analysis used for the private sector? Some brief comments:

1. Environment basics: market size, growth and share	Possibly but needs complete re-think for public sector
2 Degree of turbulence	Yes, but will need careful analysis based on broad political and economic issues
3. PESTEL factors	Yes
4. Industry life cycle	Possibly but not clear what this means
5. Key factors for success – KFS	Yes in the sense that this may identify <i>priorities</i> in the public sector

Lynch, Strategic Management PowerPoint on the Web, 7th edition © Richard Lynch 2015

Slide 18.15

Analysing the public environment - 7

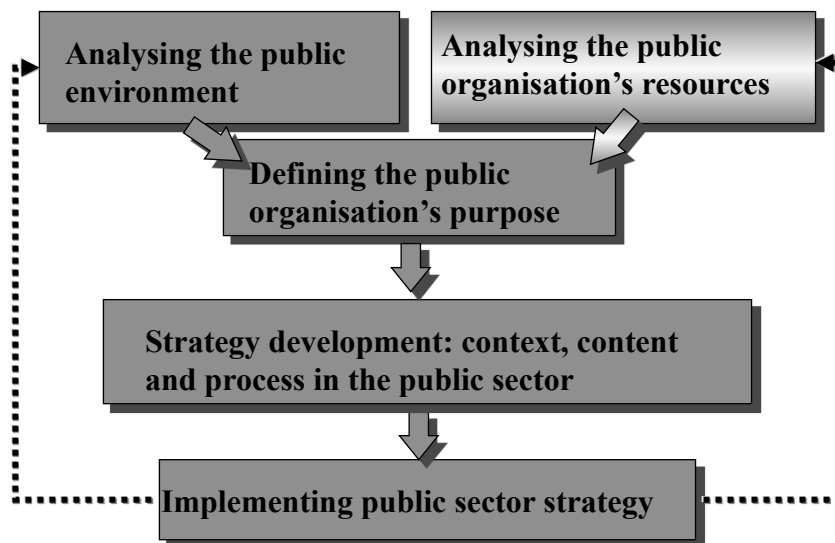
- Is it possible to employ the nine-stage environmental analysis used for the private sector? Some brief comments - continued:

6. Five Forces analysis	Possibly for customers, suppliers and competitors, but what do 'substitutes' and 'new entrants' mean?
7. Four Links analysis	Co-operative links definitely worthwhile – also network analysis
8. Competitor analysis	Difficult to envisage any significant benefit here unless part-privatised
9. Customer analysis	Useful but consider in relation to broader concepts of public value and choice

Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.16

Developing strategy in the public and not-for-profit sectors

Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.17

Analysing the public organisation's resources - 1

- In the *private* sector, resource analysis is underpinned by the concept of sustainable competitive advantage and the assumption of market place competition: clearly this does not apply in parts of the public sector, e.g. public fire and rescue services
- In the *public* sector, there may be a greater range of resources than is available to companies in the private sector, e.g. the general public may act as a resource to force changes
- Hence there are three key issues in analysing resources in the public sector:
 - Consideration of the relevance of competitive advantage
 - Nature of the wider range of resources in the public sector beyond competitive advantage
 - Analysis of resources using concepts from the private sector, such as core competencies and knowledge, where appropriate

Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.18

Analysing the public organisation's resources - 2

- Competitive advantage *does* apply if a nation adopts the policies of the market mechanism to parts of the public sector
- Often referred to as the *New Public Management* (NPM) model: (see: Lynch, Chapter 18, section 18.2)
- If competition does exist, then it follows that resource-based analytical concepts *can* be applied in such parts of the public sector:
 - Tangible, intangible and organisational capability
 - Architecture, reputation and innovative capability
 - Core competencies and some areas of knowledge
- Even where competition does not exist, it is arguable that some areas of resource analysis can still usefully be undertaken – numbers, skills, structure, etc. – but *not* from the perspective of competing against rival organisations

Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.19

Analysing the public organisation's resources - 3

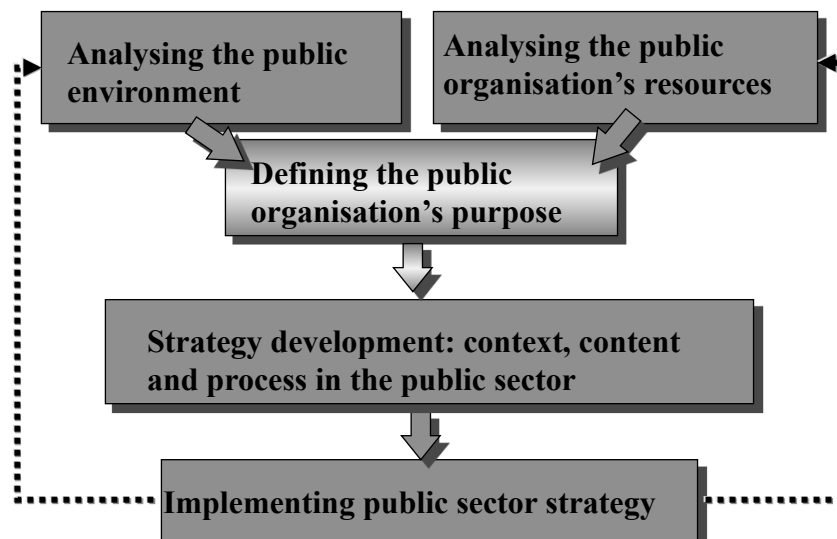
Some considerations in public resource analysis beyond the issue of competitive advantage:

- Sufficient and appropriate resources: public sector resource analysis needs to assess whether sufficient and appropriate resources are available to deliver the purposes set by the state, e.g. sufficient funds to cope with a policy decision to increase the size of defence forces
- Public power as a resource: the nation state has an authority that is lacking to an individual business, however large. This power represents a resource available to the public sector
- Maximum benefit for the least cost: public resources need to be analysed for their ability to deliver this principle
- Persuasion and education as a public resource: the state can also use its resources to persuade people for the public good. This resource is not available to private companies

Lynch, *Strategic Management PowerPoint on the Web*, 7th edition © Richard Lynch 2015

Slide 18.20

Developing strategy in the public and not-for-profit sectors



Lynch, *Strategic Management PowerPoint on the Web*, 7th edition © Richard Lynch 2015

Slide 18.21

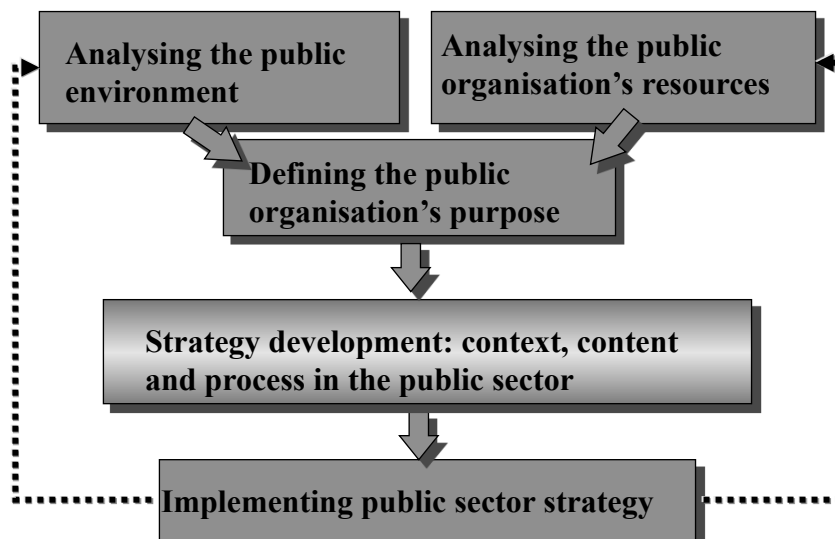
Defining the public organisation's purpose

- Public sector organisations are directed by politicians who may be subject to election. Purpose can change after such a vote.
- Not-for-profit organisations often include voluntary labour that can be unpredictable, even withdrawn
- Implication: Purpose in the public sector is complex and may be subject to short term shifts in public opinion
- Developing purpose in the public sector needs to explore three areas:
 - Analysing stakeholders and the will of the people
 - Defining clearly what the public sector organisation is meant to do: its written mandate, which may be defined legally
 - Resolving the many dilemmas and conflicts, e.g. the conflict between 'improving service' or 'reducing the costs'?

Lynch, *Strategic Management PowerPoint on the Web*, 7th edition © Richard Lynch 2015

Slide 18.22

Developing strategy in the public and not-for-profit sectors

Lynch, *Strategic Management PowerPoint on the Web*, 7th edition © Richard Lynch 2015

Slide 18.23

Strategy development: context, content and process in the public sector

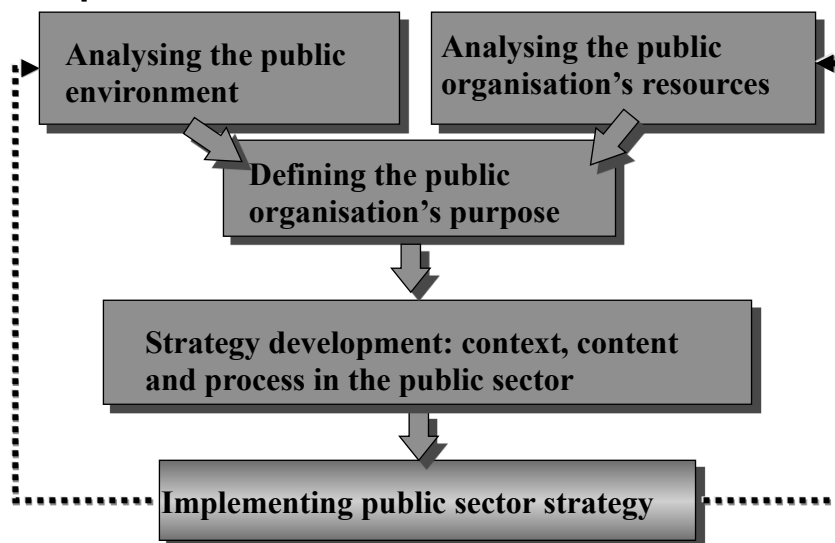
Public sector strategy needs to explore context, content and process

- *Context* needs to consider developing priorities in order to make it simple enough to manage
- *Content* can be developed using prescriptive approaches such as options and choice
- *Process* is conditioned by the uncertainties that exist in the public sector – political change and cataclysmic events – leading to:
 - Either logical incrementalism - J.B. Quinn
 - Or ‘muddling through’ – taking one step at a time – Lindblom

Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.24

Developing strategy in the public and not-for-profit sectors



Lynch, *Strategic Management PowerPointPoints on the Web*, 7th edition © Richard Lynch 2015

Slide 18.25

Implementing public sector strategy

Implementation in the public sector:

- Needs to be carefully planned and is best undertaken quickly and smoothly
- Form of implementation depends on the scale of the strategy. Major changes need substantial support. Smaller changes are probably best treated incrementally
- Implementation needs to consider the value added by each strategy and then explain this to those involved in its implementation
- New organisation structures may be required: need to be introduced at the outset, not later. Such change may take years to complete.
- Agreement of key decision makers needs to be completed in advance of any major strategic moves

Lynch, Strategic Management PowerPoint on the Web, 7th edition © Richard Lynch 2015