

# Occasional paper no. 7

---

## The nature of strategy in the public sector

Stephen Petris  
Department of Sustainability and  
Environment

states**ervices**authority



---

The Australia and New Zealand School of Government and the State Services Authority of Victoria are collaborating on a partnership to build connections between new thinking, practice and implementation in public administration. The Occasional Paper series is part of the partnership program.

#### [About the Australia and New Zealand School of Government](#)

ANZSOG is a consortium of governments, universities and business schools from Australia and New Zealand. It represents a bold commitment on behalf of member governments to strengthen the management and policy capacity of their respective public sectors.

ANZSOG is a world-class centre that provides tailored learning opportunities for future leaders of the public sector. ANZSOG's purpose is to encourage improved public sector decision making, leadership and policy outcomes for the benefit of the whole society. In doing so, the School also plays a key role in promoting public service as a profession of great social value.

ANZSOG has three core activities:

- executive education courses including an Executive Master of Public Administration degree;
- a case study program; and
- a research program

These programs aim to deepen knowledge and understanding of government and to disseminate that understanding to the wider community – for the benefit of the whole society.

**Contact us at:**

ANZSOG  
email: [anzsog@anzsog.edu.au](mailto:anzsog@anzsog.edu.au)  
phone: +61 3 8344 1990  
fax: +61 3 9349 5849

**Postal Address:**

PO Box 4023  
Parkville  
Victoria 3052  
Australia

**Web address:**

[www.anzsog.edu.au](http://www.anzsog.edu.au)

#### [About the State Services Authority](#)

The State Government of Victoria has vested the State Services Authority with functions designed to foster the development of an efficient, integrated and responsive public sector which is highly ethical, accountable and professional in the ways it delivers services to the Victorian community.

The key functions of the Authority are to:

- identify opportunities to improve the delivery and integration of government services and report on service delivery outcomes and standards;
- promote high standards of integrity and conduct in the public sector;
- strengthen the professionalism and adaptability of the public sector; and
- promote high standards of governance, accountability and performance for public entities.

The Authority seeks to achieve its charter by working closely and collaboratively with Victorian public sector departments and agencies.

**Contact us at:**

State Services Authority  
Email: [info@ssa.vic.gov.au](mailto:info@ssa.vic.gov.au)  
Phone: +61 3 9651 1321  
Fax: +61 3 9651 0747

**Postal Address:**

3 Treasury Place  
Melbourne  
Victoria 3002  
Australia

**Web address:**

[www.ssa.vic.gov.au](http://www.ssa.vic.gov.au)

---

Published: April 2010

---

### Series foreword

The Australia and New Zealand School of Government and the State Services Authority are collaborating on a partnership that draws together a broad network of policy-makers, practitioners and leading academics.

The partnership is designed to build connections between new thinking, research and practice in public policy and public administration.

The Occasional Papers explore the challenges and opportunities in public administration. They showcase new ideas and offer new insights into issues facing the public sector.

Written by either academics or public servants, the papers bring together the academy with public policy practitioners.

We trust that you find the Occasional Papers stimulating and thought provoking. All papers in the series are published on the ANZSOG and SSA websites.

### **Professor Allan Fels AO**

Dean  
Australia and New Zealand School of Government

### **Bruce C Hartnett**

Chair  
State Services Authority

The views represented in this paper are those of the author and do not represent the views of the Australia and New Zealand School of Government or the State Services Authority.

### About the author

Stephen Petris is the Director, Strategy and Innovation, at the Department of Sustainability and Environment. Stephen is responsible for developing new and innovative approaches to strategic analysis and renewal in DSE, including support to Executive Directors and their divisions in the development of corporate and business strategies, and resulting new initiatives.

This position builds on over fifteen years in related roles in the CFA, the Department of Natural Resources and Environment and, most recently, the Department of Primary Industries where Stephen established and led the Strategic Policy Unit for five years.

Stephen has a passion for both the theory and practice of strategic management in the public sector, and significant experience in managing processes associated with both strategy development and implementation, including the design and facilitation of major strategic planning events.

All opinions expressed in this paper are the author's and are not the views of the Department of Sustainability and Environment.

---

Throughout the public sector, people are continually developing various strategies and plans to help focus effort and resources on what is important. Despite the ubiquitous nature of these types of documents, little guidance is available on how to approach the task of formulating strategy in the public sector. Managers often have to ‘muddle through’ or do ‘what seemed to work last time’. This can be problematic, particularly when the going starts to get tough! Strategy consultants can help. Yet they typically offer variations on a single approach, which, when applied out of context, usually leave people dissatisfied with the result.

This paper seeks to give public sector managers a better sense of how to approach strategic planning by:

- 1) suggesting the three defining characteristics of public sector strategy
- 2) offering a framework that outlines the process of crafting a strategy, winning support for it, and measuring its success
- 3) describing the relationship between strategy formulation and other processes that are designed to promote innovation.

#### *The different levels of strategy in organisations*

There are three distinct levels of strategy in organisations discussed in the mainstream strategic management literature: (1) corporate or multi-business strategy; (2) business strategy; and (3) functional strategy such as marketing or operations (Hubbard et al, 2008). With some minor adjustments, these levels are just as relevant in the public sector, although program strategy is more appropriate than functional strategy given that public sector businesses are usually organised by program.

Deciding on which level of strategy best describes an organisation’s current strategic issues—corporate, business or program—is usually a sound starting point for deciding what types of analytical tools might help to better understand these issues.

*Corporate strategy* is concerned with issues related to the mix of ‘businesses’ (e.g. divisions) held by a ‘multi-business organisation’ (e.g. a department). The key question is how does the corporate level add value? This is especially relevant for corporate functions such as finance, human resources, or central policy units, and for people charged with getting the most value from a collection of divisions or units—namely, senior management. Johnson *et al* (2005) note that there are essentially three key ‘roles’ through which ‘the corporate centre’ can add value:

- 1) *Portfolio managers* manage investment (or resource allocation), which includes investing in new areas, stopping investment in low-performing areas, and encouraging improved performance in other areas.
- 2) *Synergy managers* enhance value by managing synergies across business units, which may involve sharing resources, activities, skills or competencies across businesses (e.g. in the form of cross-cutting projects).
- 3) *Parental developers* rely on their particular capabilities or expertise (e.g. finance, economics, strategy) to add value to other businesses where these capabilities are aligned with either deficiencies or opportunities in the business.

*Business strategy* is concerned with effectively aligning or positioning a business to improve its performance. A ‘business’ can be defined as a part of the organisation (often a division) that is aligned with a distinct key stakeholder group (Johnson *et al*, 2005). Business strategy typically begins with developing a sophisticated understanding of the strategic position of the business through an analysis of external trends and key stakeholder expectations (i.e. the ‘external’ perspective), and strategic capabilities and performance (i.e. the ‘internal’ perspective) (Hubbard *et al*, 2008). This enables key strategic issues or gaps to be identified—that is, where the strategy of the business is out of alignment with the ‘external’ or

---

the ‘internal’ perspective. Good strategies respond to these gaps. They synthesise the conclusions of the analysis into a compelling strategy that articulates the next round of priorities that the business must focus on, such as new products and services, or programs and initiatives.

*Program strategy* deals with how individual programs can contribute to transforming the priorities of the business strategy into results. This is where various types of program logic can help to clarify how the program will contribute towards the outcomes that the community seeks. In my experience, Duckett’s process (2008) of developing and refining program strategy is one of the better approaches. This involves the following stages:

- 1) choosing relevant ‘off the shelf’ program logic for the type of program— product/service provision (e.g. electricity, water supply); educative (e.g. Sunsmart, Target 155 water use reduction); advisory (e.g. business attraction, agricultural extension); case management (e.g. parole, return to work); or regulatory (e.g. pollution control, drink-driving)
- 2) determining the ‘accountability’ line—the level in the program logic for which you can be accountable for results (given the resources you control etc.)
- 3) clarifying the objectives the program is accountable for at that level
- 4) determining the success measures for the objectives
- 5) designing relevant performance measures that help the program track its effectiveness.

It is important to note that in practice, these three levels of strategy may not always neatly ‘map’ to the layers of an organisation. Take, for example, managers of divisions (i.e. the equivalent of *business* units) that consist of a number of units (i.e. the division has some of the characteristics of a multi-business *corporation*). These managers may also be responsible for major *programs* that could be the primary focus of the division. As a result, they may face questions relevant to all three levels of strategy simultaneously. It is still useful, however, to use the three levels of strategy to tease out the most important issue to focus on.

#### *The significance of the ‘authorising environment’ in the public sector*

There is often resistance in the public sector to using analytical tools that appear to be custom-designed for the private sector—that is, tools used to analyse the strategic position of a business. However, these tools are designed for the problems that all organisations face, and can be equally as effective for public and not-for-profit organisations. The language used, however, needs to be adapted to better reflect the different contexts of these types of organisations. For example, private sector organisations have ‘customers’, while public sector agencies have ‘citizens’ (and their representatives), ‘clients’ and ‘obligatees’ (Moore, 2006).

There is one major exception to this—the significance of the ‘political context’ or ‘authorising environment’ in the public sector. Moore (1995) discusses this in his landmark text, *Creating public value—strategic management in government*, which is now a key part of the curriculum of the Australia and New Zealand School of Government. According to Moore, managers in the public sector are ultimately evaluated in the ‘political marketplace’ of politicians and citizens, who collectively evaluate intangible *public value* from different perspectives.

This differs from the economic marketplace where individual consumers make individual decisions around the singular end of monetary value. As a result, Moore suggests that strategies in the public sector need to meet three broad tests if they are to succeed in creating *public value*.

Essentially, strategies need to be:

- 
- *substantively valuable*—produce ‘things’ of value to overseers, clients and beneficiaries at low cost in terms of money and authority
  - *legitimate and politically sustainable*—able to continually attract both authority and money from the political authorising environment
  - *operationally and administratively feasible*—can actually be delivered by the existing organisation with the help of others.

The key challenge for the public sector manager charged with crafting a strategy that meets these three tests is to *synthesise* the range of relevant ideas, analyses and perspectives into a compelling, coherent and robust strategy. In addition, the strategy must resonate with all relevant stakeholders to win support from the authorising environment.

The dynamic and complex nature of the authorising environment goes some way to explaining the number of strategies in the public sector. Strategies are regularly refreshed in response to changes primarily in the authorising environment, such as new priorities associated with a change in government. It also explains why performance measurement systems in the public sector have such a disappointing track record—performance measurement is ultimately ‘a subjective value-laden activity, taking place in a political context’ (Thomas, 2006).

It is possible to overestimate the significance of the authorising environment in public sector strategy, as the extent to which the environment in which an organisation operates is politicised varies significantly. Generally, strategies designed to help to achieve the *outcomes* that politicians and citizens seek, such as securing Victoria’s future water supply, or creating safe neighbourhoods, need to address the three tests of public value above. Other strategies that are primarily concerned with setting the direction of *organisations* (e.g. agencies, divisions) are likely to benefit from using tools for crafting business strategies.

These tools, however, still need to be adapted to account for the fact that public value is intangible and influenced by different perspectives. One of these adaptations is to recognise that it is more difficult for managers in the public sector to translate a strategic direction into what they are going to do more of, and (especially) what they are going to stop doing. As a result, the real value of strategies that set direction is often in the extent to which they signal the (handful of) priorities that the organisation intends to focus more of its energy and resources on in the outlook period.

#### [The higher degree of complexity in the public sector](#)

The final defining characteristic of strategy in the public sector is that many of the challenges that managers face are likely to be *complex* problems. These problems have no right answers, but many competing ideas in a dynamic and unpredictable environment. They are distinct from *complicated* problems where underlying cause-and-effect relationships exist that require expert diagnosis. They also differ from *simple* problems, such as recurring problems where the right answer is evident (Snowden and Boone, 2007).

This has a number of implications for the practice of strategy. In the private sector, it is sometimes possible to develop a strategy if you are able to combine enough of the right types of data and analysis with the ‘experts’ (typically managers) who can interpret it—that is, sometimes formulating the strategy is merely *complicated* rather than *complex*.

In the public sector, however, the intangible and shifting nature of public value combines with the complexity of the policy tasks managers are confronted with (e.g. responding effectively to the challenges of climate change). This means that strategy formulation typically features a much higher level of engagement of various types of stakeholders in order to ensure enough insight and intelligence is brought to the puzzle of finding some way through the complexity (Kurtz & Snowden, 2003). As a result, large group processes, such as search conferences, are more common in formulating strategy.



---

It also explains the rise of new tools designed to help managers get traction in dynamic and complex multi-stakeholder environments, where no individual organisation has the capacity to achieve unilateral outcomes. These include the strategies and tactics offered by the emerging field of *network management*. Klijn and Teisman (1997) suggest that there are two broad types of network management strategies.

The first, *game management*, involves the management of interactions within networks by any of the participants to improve the understanding of each other's position. This develops trust, and ultimately strengthens the capacity of the network for joint action. The second strategy, *network constitutional strategy*, involves building or changing the institutional arrangements that make up a network by any of the participants. This can include strategies that change the participants in the network (e.g. introducing new players), or that change the 'rules' around which interactions in the network are structured.

#### [A new framework for guiding strategy formulation in the public sector](#)

Drawing on the three defining characteristics of public sector strategy, this paper offers a framework to guide the types of interventions that might work best for different types of strategy tasks in the public sector. The framework assumes that there are essentially three key processes in strategy formulation:

- 1) crafting the strategy through analysing and sensing
- 2) winning support from the 'authorising environment' (e.g. the Secretary, the Minister, Cabinet and/or the broader community)
- 3) measuring the performance after determining success factors.

The last process is vital in the strategy formulation phase if managers are to have the ability to understand the extent to which a strategy has been successfully executed.

The way in which managers approach each of these strategy formulation processes will differ depending on whether their primary focus is:

- the *organisation* that they are responsible for managing (e.g. division)
- the *program* or service the organisation is charged with delivering
- the *longer-term outcomes* to which the programs are directed, although these outcomes are often too great in scope for a single organisation to achieve through its own strategic endeavours.

Table 1 overleaf demonstrates the interplay of these ideas.



**Table 1: Aligning the strategy formulation process and the unit of focus**

		PRIMARY UNIT OF FOCUS		
		Organisation	Program	Outcome
STRATEGY FORMULATION PROCESSES	<b>Crafting the Strategy</b>	Deciding what type of strategy problem the organisation is primarily grappling with (typically <i>corporate or business</i> )  Undertaking the relevant form of <i>strategic analysis</i>	Designing the program by using techniques adapted to the type of problem e.g. <i>project management</i> for simple or complicated problems; <i>sense-making</i> for complex problems	Developing a compelling case for creating <i>public value</i> that meets the three tests: politically sustainable; substantively valuable; operationally and administratively feasible
	<b>Winning Support</b>	Designing a <i>participative strategic planning process</i> , which involves all those critical to the success of the organisation in clarifying its strategic directions	Using <i>stakeholder management</i> to understand the expectations of key stakeholders, and to reflect them in their interactions with the program	Improving the capacity of a network of organisations to achieve outcomes through joint action with the appropriate use of <i>network management</i> strategies and tactics
	<b>Measuring Performance</b>	Articulating the strategy of the organisation through a <i>strategy map</i>  Creating a <i>scorecard</i> (objectives and measures) to track the effectiveness of the strategy	Using <i>program logic</i> to clarify the objectives the program is accountable for delivering  Determining the success measures for the objectives to design relevant performance measures	Demonstrating <i>managing for outcomes</i> by developing and reporting on progress against <i>headline indicators</i> , including what is being done in response to changes in these indicators

When designing interventions to tackle strategy formulation challenges, public sector managers will often have more than one objective. For example:

- Managers may commission strategic analyses of the operating environments for their organisation to inform the development of business plans. They may also ask for the analysis to be performed in a way that engages a large number of staff in order to win broad support for subsequent priorities.
- Managers may be responsible for developing strategies for major new outcome-focussed initiatives, but realise that winning support for the initiative depends equally on how successfully they navigate the network of people and organisations who have a stake in the initiative.
- Managers may be charged with developing and monitoring the indicators that help to assess whether a major government initiative is having an impact, but they may also

---

need to ensure that their programs are able to account for their contribution to this impact.

### The relationship between strategy formulation and innovation

Finally, there are many processes associated with the practice of strategy in the public sector that do not fall neatly within the scope of this framework. Strategy formulation is only one part of the practice of strategic management. A useful way of putting the task of strategy formulation into context is to understand its role in innovation—that is, the broader challenge of surfacing ideas and turning them into results, particularly with the growing focus on promoting innovation in the public sector.

The ‘innovation value-chain’ developed by Hansen and Birkinshaw (2007) suggests that there are three broad processes involved in innovation:

- 1) idea generation—in-house (creation within a unit); through cross-pollination (coordination across units); or external (collaboration with parties outside the organisation for either solutions or discovery)
- 2) conversion—selection of ideas (screening and initial funding), and subsequent development (movement from idea to first result)
- 3) diffusion—spread or dissemination of the ideas across the organisation.

The processes associated with strategy formulation are rarely the source of creative new ideas. The value of investing in strategy formulation is that it helps managers clarify which of the many competing ideas about future direction are the most important to focus energy and resources on. Given that strategic decisions, by definition, always have some significant and irreversible consequences, they also give managers confidence to commit to seeing these ideas through. This means that strategy formulation is best linked to the part of the innovation value-chain concerned with the *conversion* of ideas.

In contrast, the real value of processes associated with scenario thinking or *foresighting* (increasingly popular in the public sector) is in *idea generation*. This comes from imagining how some of the ‘key uncertainties’ facing public sector managers might play out, and then looking for signs of the ‘weak signals’ associated with any of the resulting scenarios. Similarly, the real value of processes associated with producing the ubiquitous business plan is often in programming and communicating the actions that will implement a strategic direction (i.e. more aligned with the *diffusion* of ideas in the innovation value-chain).

### Conclusion

To summarise, finding the best approach for formulating strategy in the public sector is challenging. Managers looking for inspiration might seek out standard strategic management tools and frameworks for guidance, but they need to adapt these for the particular public sector context. They must also test whether they adequately account for the complexity of public policy problems, the need for securing support from an authorising environment, and make sure they are designed for strategy formulation rather than some other strategic management task.

Given this complexity, the best approach is always to determine the specific problem that needs addressing in order to design an appropriate intervention. That is, a problem defined is a problem half solved. By offering a framework that helps tease out the different types of challenges managers face in formulating strategy in the public sector, this paper hopes to make this task a little bit easier.

---

## References

Duckett, M 2008, *Business planning and performance indicators for government: handbook*, DGR Consulting.

Hansen, M & Birkinshaw, JM 2007, 'The innovation value chain', *Harvard Business Review*, 85(6): 121 – 131.

Hubbard, G, Rice, J & Beamish, P 2008, *Strategic management: thinking, analysis, action*, Pearson Education, Sydney.

Johnson, G, Scholes, K, & Whittington, R 2005, *Exploring corporate strategy*, Prentice Hall.

Klijn, E-H & Teisman, GR 1997, 'Strategies and games in networks', in Kickert *et al*, *Managing Complex Networks*, Sage Publications, London.

Kurtz, CF & Snowden, DJ 2003, 'The new dynamics of strategy: sense-making in a complex and complicated world', *IBM Systems Journal*, 42(3): 462 – 4823.

Moore, MH 1995, *Creating public value: strategic management in government*, Harvard University Press.

Moore, MH 2006, 'Recognising public value: the challenge of measuring performance in government', in *A Passion for policy: essays in public sector reform*, J Wanna (ed.) ANU Press/Australian New Zealand School of Government.

Snowden, DJ & Boone, ME 2007, 'A leaders' framework for decision making', *Harvard Business Review*, (November): 68 – 76.

Thomas, PG 2006, *Performance measurement, reporting, obstacles and accountability: recent trends and future directions*, ANU E Press, Canberra.