Strategic Management in the Public Sector:

A Definition and a Characterization of the Intellectual Challenge

Mark H. Moore

(Taken from “Strategic Management of Corrections:”
A Paper Prepared for the 3rd Annual Research Conference
of the International Association of Residential and Community Alternatives (IARCA)
Ottawa, Ontario,
October 11-14, 1995)

Defining Strategic Management

In contemporary management theory, "strategic" approaches are definitely in vogue. Yet, it remains unclear what this means. It remains particularly unclear what it means to manage strategically in the public sector. Let me start by clearing up these mysteries, or at least by explaining how I intend to use the term.

A. Looking Ahead (But Not Too Far!)

Perhaps the most common idea associated with strategic management is that it should be about the future, preferably the long run future. In this respect, strategic thought seeks to overcome the enormous gravitational pull of the concrete present; to focus managers' attention on imagined futures, and what must be done now to prepare for those futures rather than expend all their energy reacting to current demands.

Forward thinking is certainly an important part of strategic thought; strategy should be focused on goals "beyond the horizon." Yet, it is quite easy for managers, and particularly planners, to reach too far into the future -- to establish planning horizons that are too distant to be practically useful.

The difficulty with looking too far into the future is that, as one does so, uncertainties multiply. The farther one looks ahead, the more varied environmental conditions can become. The more varied conditions can become, the harder it is to define the best organizational response. This is particularly true if the environment one faces is rapidly changing. In such circumstances, commitments to specific long run objectives can lead one dangerously awry, for the future may turn out to be quite different from what one imagined.

In addition, even if one guesses right about the future, the further ahead one looks, the more attenuated the link becomes between the imagined future, and the particular, concrete actions that must be taken today to prepare for that future. The more tenuous the link, the looser the grip the future has on the imaginations of those whom managers must persuade to act in the present, and the harder it is for managers to focus the attention of their organization on the demands of the future. Long run plans, based on imagination and calculation rather than concrete, current experience, fail to command the attention that the concrete demands of the present can. For both reasons, then, "long run plans" may fail to usefully guide organizations: they are either mistaken, or widely ignored, or both.

If it is a mistake to stay focused too much on today's operations, but also to look too far in the future, there must be some optimal time horizon to use in strategizing. So, I think, there is. But it is not the same for all situations. The optimal planning horizon depends on how clearly one can see into the future, and one's ability to act now to prepare for that future. The more dynamic and changeable one's environment, the shorter the optimal planning horizon. The tighter the constraints on one's authorization to invest and innovate (and, thereby, to produce returns in the future), the shorter the horizon. What this means for most public sector organizations is that two years is probably too short, and ten years much too long; four or five years is probably about right.

B. Focusing on Key Investments and Innovations

The focus on preparing for the future means that, in strategic management, managerial attention is focused intensively on the investments being made today which will ensure success tomorrow. Relatively less attention is focused on maintaining the larger number of routine activities that constitute the totality of the organization's current activities. In essence, managers must learn to look away from current operations.

This doesn't mean that the routine operations are not important. They are. Their continuation is necessary to the future of the organization. It just means that strategic managers have to relax their exclusive pre-occupation with managing current operations, and become focused on the investments they are making that will improve performance in the future.

The investments that matter are, generally speaking, innovations. The investments that will improve performance are at least new to the organization; they may also be new globally. They can be of many different types. Some involve more efficient methods of achieving old goals, or delivering old services. Others involve introducing new products and services. And some involve a whole new strategic idea about both the ends and means of an organization.

Because strategic management is focused relatively more intensively on investments and innovations, strategic managers tend to think of themselves as "change agents" rather than "status quo managers." But the change cannot be change for change's sake; it must be designed to achieve a purpose. But what purpose?

C. Fitting Goals to Environmental Conditions

This leads to the third idea commonly associated with strategic management: organizational goals should be fitted to realistic assessments of 1) what the environment demands, makes possible, or considers valuable, and 2) what the organization can do to meet the demands, exploit the opportunities, or produce what is valued. Environments do not allow organizations to become just anything. (Indeed, they sometimes require an organization to be a particular something!) Moreover, organizations are not capable of becoming anything they want, even if the environment allows or requires it, and even if managers are skillful change agents. The discipline of strategic management requires that organizational goals accommodate this reality.

In the private sector, the important environmental conditions include such factors as: 1) the future demand for the company's (more or less varied) products; 2) the organization's current market share in each of its product markets; 3) the organization's "distinctive competence", and the rate at which that is being transformed by technological innovation; 4) the factors that give the organization an advantage or disadvantage vis-a-vis their competitors in each of their product markets; and so on. In the public sector, the relevant factors are less well established, but includes at least the following: 1) projected increases in client populations; 2) the emergence of new programs, administrative systems, or technologies that are widely believed to or actually do improve the performance of the organization in traditional missions; 3) the re-balancing of political priorities to give greater emphasis to one kind of activity, or one dimension of value over another; 4) the emergence of new political demands or aspirations to which a public organization could choose to respond; and so on.

These diagnostic skills have a "strategic" quality not only because they are directed outward and toward the future, but also because the environments are assumed to be dynamic and heterogeneous: dynamic in the sense that demands and expectations for the organization will change (partly on their own accord, and partly in response to what managers do); heterogeneous in the sense that different stakeholders will want different things from the organization. The world that most managers would prefer -- one in which the demands on the organization remain stable, specific and coherent -- is treated as a special (and not particularly likely) case.

D. Positioning Organizations

Because organizational environments are dynamic and heterogeneous, organizational planning cannot be formulated as an "optimization" problem. Instead of "optimizing" the performance of the organization against a consistent, clear set of objectives, strategic managers "position" their organizations in complex, changing environments. This means several different things.

First, it means centering their organizations' efforts within (what seem to be) the strongest and most durable demands on the organization. They must find and exploit their core business opportunities.

Second, it means developing sophisticated methods for continuously scanning their environment. This includes initiating formal planning efforts. But it also includes paying close attention to the feedback that they are getting from various stakeholders about the value of current products and the efficiency of current operations.

Third, it means developing a diversified portfolio of activities distributed across many different products or activities that might turn out to be valuable or important. The diversified portfolio is important as a hedge against the uncertainty about how the environment will change, and as a way of accommodating the heterogeneity of the environmental demands.

Note that holding a diversified portfolio implies that an organization is less efficient in achieving any specific objective. If the organization could be sure of what will be demanded of it, it can focus all of its resources on achieving that goal. If, however, it must be uncertain about the particular things required of it, it must be ready to produce several different things. And that is generally less efficient than producing one thing.

E. Summary

In sum, strategic management is about judgment and poise. It has to do with looking far enough ahead into a complex, changing environment to make an accurate judgment about what is valuable and feasible for an organization to achieve. And it has to do with positioning the organization in that environment in a way that allows it to pursue and exploit opportunities through sustained effort, but also to adapt and respond quickly when environmental conditions change in unexpected ways.

II. Strategic Management in the Public Sector

If the challenges of strategic management are: 1) to focus managerial and organizational attention and effort on ensuring success in the (mid-range) future rather than the present; 2) to focus on the few, large investments and innovations that allow an organization to fully exploit their best environmental opportunities; 3) to base planning on hard-nosed assessments of both the constraints and opportunities in an organization's dynamic and heterogeneous environment; and 4) to remain flexible and adaptive by continuously monitoring the organization's external environment and sustaining a diversified portfolio of activities; then it is not hard to see why strategic management is particularly difficult in the public sector.

A. The Difficulty of Focusing on the Future

Take, for example, the injunction to focus on the (mid-range) future. In principle, that should be possible in public sector organizations. The missions of public sector organizations are relatively stable. Their leaders are technical experts in their fields. It ought, therefore, to be possible for organizations to make steady progress in improving their performance. To many public sector managers, this is the ideal.

What stands in the way of achieving this ideal, however, are the insistent and fickle demands of politics. The hot currents that pulse through public sector organizations are not the pressure of competition, or unpredictable shifts in consumer demand; they are the demands of their political overseers. These are particularly hot when managers and their organizations are exposed to intense public scrutiny: for example, when damaging news stories occur, or elected overseers in legislative and executive branches of government make an issue of an organization's performance, or (much less frequently) when a court steps in to declare an organization's operations unconstitutional.

Such moments often seem unpredictable: they seem to come from nowhere. Moreover, they often seem to focus on one particular incident, or on one particular attribute of an organization's performance, not on the organization's overall performance, or the full set of dimensions along which an organization's performance should be evaluated. For both reasons, they are distracting, and throw a monkey wrench into the planned, orderly development of the organization's operations.

Even the more formal and systematic mechanisms of accountability (such as budget reviews, audits, performance evaluations, or contract re-negotiations) which could, in principle, operate to keep organizations focused on a more orderly course of development tend, instead, to be focused on the past or the immediate future. At best, public sector budgeting processes ask managers to look one or two years out, not four or five. Planning efforts may make a contribution by noting some important environmental changes that require increased spending (such as projected increases in workload or clients), or by proposing certain kinds of investments needed to improve current operations (such as new information systems). But these tend to be closely tied to current missions and operations, not to scenarios that require radical new thinking about products or productions processes. What is particularly missing in the usual budget based planning systems important investments in human resources, or important experiments that could lead to new products or production processes. These expenditures are viewed as administrative overhead in existing operational budgets rather than as the value creating paths to the future. Thus, managers in the public sector have few occasions or incentives to look far ahead.

B. Hostility to Innovation

Consider, next, the idea that strategic management should focus on the investments and innovations that pave the way toward a value creating future. The private sector has clearly learned that investment and innovating -- both in products and processes -- are valuable, even essential, for private sector organizations to succeed. In their dynamic world, organizations must continuously re-invent themselves if they are going to survive. The public sector has been far less enthusiastic about continuous innovation. The reason is simply that the public sector is much less comfortable with the risks of innovation than the private sector.

All innovations entail risks. By definition, one cannot be sure that the innovative program will work, or work well enough to justify their costs. Thus, to innovate is to expose both investors and customers to risks.

The public sector is exceedingly hostile to risky investments. If public sector executives cannot be sure that a new program will work, the effort should not be undertaken. They shouldn't "gamble" with public money, or with their clients' lives and fortunes. They are paid to be expert, and to know how to solve public problems; they are not paid to experiment with untested ideas.

These prevailing views, reinforced on a daily basis through the vigorous pilloring of public officials who dare experiment and then fail, teach public managers to stay well within the boundaries of conventional practice. They create a climate in which "errors of omission" (i.e. failing to invent or adopt an innovation in a situation where they might have done some good) are complacently tolerated, while "errors of commission" (i.e. undertaking an innovative program that ultimately fails) are punished harshly. This makes it hard for individual managers to behave strategically, and slows both the overall rate of innovation in the public sector, and the rate at which valuable innovations can be diffused.

C. What's the Relevant Environment?

Take, next, the exhortation to make hard-nosed assessments of the environment. The question for public sector managers is what particular features of the environment should be monitored?

The most obvious answer is that they should focus on their "task environment": e.g. on the particular problems the organization is charged with handling, and how those are changing over time. Thus, in the context of corrections, it is important to know whether more prisoners are coming into the system, and what their particular needs will be. It may also be important to keep track of programmatic, or administrative, or technological innovations in the field that can help the organizations deal successfully with the problems that are their unique responsibilities. This is the function of program planning, and a very important part of strategic planning in the public sector.

But it is equally, or perhaps even more important, for managers to monitor what is happening in their "political environments." After all, it is citizens and their elected representatives who pay for the correctional programs, and are authorized to dictate the particular purposes to be achieved and values to be expressed through them. Of course, elected representatives are influenced by interest groups, the media, and expert professional opinion as well as by citizens' views. Whatever the sources, however, it is ultimately the values of elected representatives that transform ideas about public goals and objectives into the collective aspirations that will be publicly funded and authorized. And it is these collective aspirations that will define the terms in which managers will be held accountable. In this sense, elected overseers are more like the customers of public sector organizations than the clients who are met at the business end of the organization, and their preferences and aspirations a surer guide to what is valuable and important to produce.

D. What is Valued and Valuable in the Environment?

Not only is it difficult to determine what part of our environment should be monitored, it is difficult to figure out what particular attributes of organizational performance are wanted or needed, and how managers and their overseers could determine whether those aspirations are being met. In the private sector, the overall goals of the organization are relatively clear: the aim is to maximize long-term share holder wealth by conceiving, producing, and selling products and services at prices that can more than cover the costs of producing them. If these broad goals can be achieved, there is a presumption that the organization has produced something of value, and will be rewarded with continuing support from investors, employees, and customers.

In the public sector, however, it is often less clear what the overall goals are. There is dispute, for example, about whether the goals or a correctional system should be primarily the principled goal of ensuring justice and accountability, or the practical goal of reducing crime. There is also dispute about what the principled goals require, and how the practical goals could best be achieved. To some, for example, the goal of ensuring justice requires a detailed examination of the context of an offense and the background of an offender, and a suitably individualized disposition. To others, justice requires the opposite: a relentlessly rigorous focus on acts rather than contexts or individual backgrounds, and a disposition this is consistent with respect to the acts across all individuals. Similarly, some think crime may be most effectively reduced over the long run through rehabilitation efforts of various kinds. Others think the best way to reduce crime are through the devices of deterrence and incapacitation.

E. How Is Organizational Performance Assessed?

Note that even if the public could reach a consensus on the goals of a public sector enterprise, the problem of how to value the attainment of the goals relative to the cost of achieving them remains difficult. In the private sector, one can see whether an enterprise was "profitable" or not; all one has to do is subtract the costs of producing the goods or services from the revenues earned by selling them.

In the public sector, one might be able to see whether goals were achieved, but it is not obvious how one compares the value of achieving the goals with the costs incurred. This is particularly difficult in the public sector because not all the costs used to achieve public sector objectives are financial. Public sector enterprises often use public authority as well as money to achieve their results. Since there is a real cost (in liberty foregone) when public authority is used, it is important that public enterprises economize on the use of authority as well as money, and that the ends achieved be valued enough to justify these costs. Yet, it is difficult to account for these particular costs.

Of course, one could treat the willingness of the elected representatives to spend public money and authority to achieve the goals as indicative of the net value of a public enterprise just as we treat the customers willingness to pay for products and services in the private sector as indicative of value. But this often feels unsatisfactory because elected representatives are spending other peoples' money, and we can all easily imagine the ways in which political judgements about the value of a public enterprise might be faulty or corrupted.

This has led many public administrators to want to place their trust in analytic techniques such as program evaluations, or cost-effectiveness analysis, or cost-benefit analysis to more reliably gauge the value of their enterprises. While potentially useful, these techniques have proven more expensive to deploy, and less definitive in their conclusions than they first appeared. Thus, they have been less valuable for purposes of routine oversight and evaluation, than for the investigation of the value of experimental, and innovative programs.

In short, the question of what constitutes a valuable performance by a public sector organization remains both conceptually and operationally cloudy. For all practical purposes, public administrators have remained accountable for achieving operational goals, keeping total and average costs low, and minimizing any "fraud, waste and abuse" that might occur in their organizations. It is these attributes of performance that are used by overseers to gauge the effectiveness and value of public enterprises.

III. A Conceptual Framework: The Strategic Triangle

One way that managers in the public sector can begin to successfully cope with these obstacles to strategic management is to fix them in their sights as problems to be managed rather than conditions to be deplored. One way to accomplish this objective is to develop an analytic framework that brings the problems and opportunities of managing in the public sector clearly in view.

A. Integrating Politics, Values, and Operational Management

Over the last decade or so, faculty at the Kennedy School at Harvard have developed just such a framework to help public sector managers assess the potential and actively pursue imagined public sector initiatives. The framework is symbolized by a triangle. (See Figure 1) The three points of the triangle define particular calculations that managers must make in deciding whether an enterprise is worth pursuing. They also point to particular activities they must undertake to ensure the success of their venture.

The first point of the triangle -- the one labeled "public value" -- reminds managers of the obvious point that they are responsible for producing things that are valuable, and publicly valued. There must be something that is produced or delivered -- some way in which the world is changed by their efforts -- that would justify their expenditure of public resources. There must be a vision of important values to be achieved through their efforts-- some kind of story that connects their efforts to important public values.

The second point of the triangle -- the one labeled "legitimacy and support" -- focuses managerial attention on the idea that their particular conception of value must be able to capture and sustain enthusiasm from those who oversee their operations. As a practical matter, this is important, for without the support of elected representatives in legislative and executive branches, the organization will lack the resources (both money and authority) it needs to continue operations. But support from overseers is also normatively and ethically important, for it is only the support of elected representatives that can reassure public sector executives that their particular visions of public value -- the ones they are now using to guide their organizations' efforts -- are sufficiently widely shared to ensure they are producing genuine public value rather than idiosyncratically or self-interestedly conceived conceptions of value.

The third point of the triangle -- the one that is labeled "operational capacity" -- is designed to focus managerial attention on the question of whether a particular initiative is operationally and administrative feasible. The most obvious way to think about this problem is to ask whether a given organization is capable of implementing a particular new program -- whether it has the financial resources, the human resources, the particular kinds of procedures, equipment and facilities the program requires, and the ability to monitor performance of the program on the appropriate dimensions.

By labeling this corner of the triangle "<u>operational</u>" rather than "<u>organizational</u>" capacities, however, I am trying to remind managers that, often, much of the operational capacity they need to achieve their objectives lies outside the boundaries of the organizations they lead. For example, if one is responsible for educating children, one needs parents to help ensure the kids do their homework; if one is trying to keep the streets clean, one needs shopkeepers to sweep the streets and homeowners to put their garbage in trash bags; if one is trying to eliminate street level drug markets, one may need citizens to resist drug trafficking in their neighborhoods. If the total operational capacity one needs includes resources and efforts outside the boundaries of one's organization, it may be important for managers to operate their organizations in ways designed to mobilize and use that external productive capacity, as well as to maximize the direct contribution of their organization to the task at hand.

At one level, the idea meant to be conveyed by this simple diagram is utterly trivial: it says that in order for a public sector to be usefully undertaken, it must be valuable, authorizable, and feasible. What could be more obvious? Yet, at another level, this idea is quite challenging for it reminds us of how many times we have launched an initiative, or committed ourselves to an organizational purpose, with only one or two of these bases touched. We have known that something was valuable and doable, but not been sure where the political support would come from. Or, we have had support for a valuable enterprise, but not looked closely enough at the magnitude and character of the investment required to achieve the purpose. The reason these three things are joined together in an interlocking triangle is to remind us that all three bases must be touched if the enterprise is to succeed. And it is that that is difficult to accomplish.

B. Using the Triangle to Chart Paths to the Future

What makes this framework useful for strategic management is that it reminds public sector managers that politics must be integrated with substance and administration. Less emphasized in the diagram but implicit in the notion of strategic management is that the prevailing social, political and organizational conditions could support several different goals. There may not be a unique solution to the question of what would be valuable for an organization or a manager to do. Thus, public managers may have the discretion to decide which of several plausible visions is most valuable to undertake.

Also important is the fact that changes can occur in the conditions illuminated by the strategic triangle. Ideas about what would be valuable to achieve could change over time (at least in the relative emphasis to be given to different attributes of performance if not the overall set of value dimensions). The political forces that emphasize some dimensions of value over others might change. And the available administrative, programmatic, and technological capacities might change. As a result, goals that seemed impossible at one moment might become possible at another, and things that seemed possible and valuable can suddenly be foreclosed.

Moreover, these changes can occur independently of managerial effort, or be a consequence of managerial action. A manager, paying attention to how his organization is performing and what results it is achieving, is often in a good position to nominate important dimensions of value currently being neglected by the political environment. For example, a community corrections official might be in a position to notice the impact of work release programs on the level of support that a convicted offender could give to his dependent children, and use that information to remind the political environment that when offenders are locked up, families are weakened even as communities are made safer. Similarly, a manager can take actions that change the balance of forces in his political authorizing environment. By talking about neglected values, he or she may be able to mobilize a latent political constituency to demand that the priority of those neglected values be increased in the operations of an agency. Finally and most obviously, a manager can "re-engineer" the administration and operations of his agency, and put new capacities within the organization's reach.

C. Leadership and Strategic Management

In sum, this particular conception of strategic management in the public sector assumes that public sector managers face the challenge of integrating conceptions of public value, with political demands, and with operational capabilities. It assumes that managers have some discretion in setting goals for their organizations, for many different goals are consistent with environmental demands, and because circumstances change, both on their own and in response to what managers do. Among the conceivable goals, some are riskier and more difficult than others; some require more work and more skill from the managers than others; and some are more valuable over the long run than others. In principle, the quality of leadership that a manager gives to an enterprise can be measured by the value of the path they choose, the diagnostic skill they revealed in conceiving of the path, and the operational skill they showed in exploiting the opportunities they discerned.