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Strategic Management in Public Organizations

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Many public organizations do strategic planning, but the process often has two major flaws. It develops a strategic plan that is separate from the budget, and it fails to help the organization learn which strategies and programs are not working and make the necessary adjustments.

In government, the real plan is the budget. Too often, organizations develop strategic plans that lay out where the organization needs to go, but the budget does not follow. Strategic planning is about rethinking an organization's strategies; done well, it can lead to quantum leaps in strategy and effectiveness. But traditional budgeting is incremental; it funds some version of what was done last year and the year before that. Because it is difficult to get new strategies into budgets, particularly in times of fiscal constraint, much of the strategic plan is never put into action.

When strategies are funded, too often no one checks to see whether they are producing the results intended. Hence the organization remains stuck with the strategies it has funded, until the next round of strategic planning.

These problems are solvable. Public organizations can link strategic planning with budgeting through a process called Budgeting for Outcomes, then build a performance management system to assess results and make corrections. Dozens of public organizations have done one or the other, or both. Though specific implementation methods will differ in differing circumstances, the following steps, in roughly this order, would help more public organizations do the same.

1. Clarify mission and values.

To be effective, an organization should be able to articulate its mission (or missions) and values with brief statements that everyone in the organization knows. Some organizations already have such statements. If your organization doesn't, or if your leaders feel that their existing mission and values statements are either inadequate or unknown to most employees, you should draft or modify them.

Slight modifications can be done quickly, by the organization's high-level leaders. If they need to draft new statements or substantially modify old ones, they should involve many people in the organization, to get their thoughts and achieve buy-in throughout the ranks. Such statements are useless unless the employees internalize them and act on them. Mission and values statements should be designed to last for a significant period of time; they are not something to be done every year or two. (For more on crafting mission statements, see David Osborne and Peter Plastrik, *The Reinventor's Fieldbook* (San Francisco: Jossey-Bass, 2000), pp. 596-599.)

2. Articulate a vision of what the leadership wants to create.

In their book, *The Leadership Challenge*, James M. Kouzes and Barry Z. Posner define a vision as "an ideal and unique image of the future for the common good."

> *A vision is a mental picture of what tomorrow will look like. It expresses our highest standards and values. It sets us apart and makes us feel special. ... And if it's to be attractive to more than an insignificant few, it must appeal to all of those who have a stake in it.*[i]

This is a wonderful definition. But if visioning is about nothing more than a statement, it has little value. Visioning needs to be informed by careful analysis and to involve key stakeholders, inspiring them and winning their allegiance. It should give some indication of how they can realize the vision—what priorities they must pursue—thus acting as a springboard for outcome goals and strategies. To have power, in other words, visioning must lead to other things.

When visioning works, however, few if any forces are as powerful. A visioning process can:

- help leaders step outside the box of their current mindset and think anew about their organization's or community's condition, potential, and strategic priorities;
- help both leaders and community members internalize a new understanding of the challenges they face, a new vision, and a new path to achieve that vision -- a new "road map;"
- help leaders from different political parties, institutions, and sectors agree on a common vision and goals;
- act as "magnets for collaboration," inspiring thousands of people to work together to achieve a common purpose;

- simplify thousands of decisions and cut through months of needless discussion by providing a guide that can help people figure out what to do and what no longer needs doing; and

- create a new vocabulary that can reshape public perceptions.

For more detail about how to create visioning processes that do these things, see "Effective Visioning," by David Osborne.[ii]

3. Analyze the organization's mandates, strengths, weaknesses, opportunities, and challenges.

This analysis of both internal and external conditions, often called a "SWOC" analysis (for strengths, weaknesses, opportunities, and challenges), can be conducted by a team of internal and/or external consultants, using interviews, reviews of documents, employee surveys, customer surveys, and other forms of research. The team should gather data from staff, stakeholders and customers—not just at headquarters, but in the field as well. The research should include a careful review of all organizational mandates, whether from the courts, the legislative body, or the charter or constitution.

4. Analyze the gap between where the organization is today and the vision, to identify strategic issues it faces.

Based on the analysis done in step 3, the team would identify key issues that the organization must resolve if it is to achieve its vision. Once its analysis is complete, the team would gather decision makers for a retreat, at which it would present the data gathered in step 3 and the strategic issues it has framed.

Decisions would be made about which key strategic issues the organization must address. Then the discussion would turn to step 4.

Why a retreat? Because in most governments, no one has enough power to achieve anything by simply ordering that it be done. Power is so diffuse that leaders must spend a great deal of time convincing others to buy in to their vision, goals, and strategies. One quick way to do so is at a retreat where all the key decision makers gather.

5. Identify 5-10 outcome goals.

These are the results most important for the organization to produce. As examples, for an organization whose mission is to ensure that all citizens have adequate housing, outcome goals might include:

- reduced homelessness,
- increased home ownership,
- increased development in poor communities,
- greater customer satisfaction, and/or
- increased organizational cost-effectiveness.

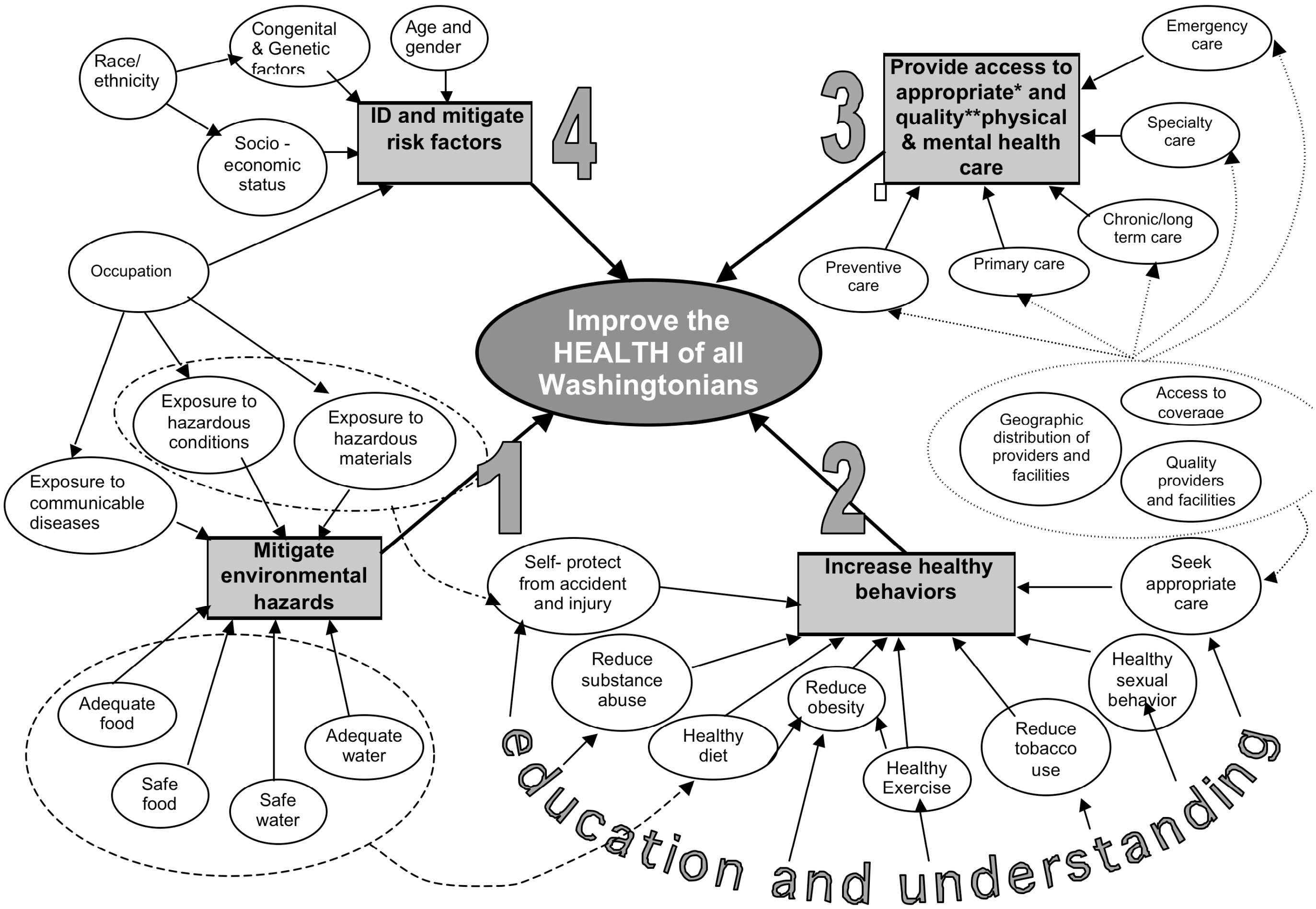
At the retreat described above, leaders would choose these goals, through a facilitated process. They would then choose three indicators with which to measure progress on each goal. This would give the organization an overall scorecard, to measure its success.

Each strategic issue the organization must address should fall within one of the outcome goals. If they do not, the group should consider adding an outcome goal that would cover the issue in question.

6. ***Develop strategies to achieve the outcome goals and address the strategic issues.***

Every organization has a set of strategies, some of which are explicit, others of which may be implicit. But the most effective approach is not to start by reviewing existing strategies. Instead, the process should begin with an analysis of what factors have the most impact on the desired outcomes (and, therefore, what factors would close the gap between the organization's vision and where it is today).

To do this work, leaders should charter a "results team" for each outcome goal: a small group (5-8) of strategic thinkers, made up of internal and external consultants, policy, research, and budget staff, and program staff. These teams would begin by using fairly intensive research to define the factors that most impact their desired outcome. Then they would develop a cause-and-effect map of those factors, to understand their interrelationships. As an illustration, this is a cause-and-effect map of the strategies that impact health in one state:[iii]



These cause-and-effect maps help identify what factors have the most power to achieve the desired outcome. With that information, results teams can then discuss what strategies might be most effective—not only to achieve the outcome goals, but to resolve related strategic issues. Some factors may be out of the organization's reach; hence they would not lead to strategies. But in most cases, the organization will discover that it can impact most of the outcome goals, whether directly or indirectly. With this fresh look at the question, the team would come up with a set of strategies it believes the organization should pursue.

The team would then compare them to the strategies already in place. (Some existing strategies would be encompassed by one program; others might involve multiple programs.) At this point, they could map the possible strategies along with existing strategies, to see how they interact with one another. (Strategies meant to resolve the strategic issues should fall within one of the outcome goals; if one or two do not, they can be mapped here, along with the rest.) This exercise, again backed by research, will help the team understand which strategies have the most power, which may not have enough power to be worth funding, and where there are still gaps that may require strategies they have not conceived of yet. (For more on strategy mapping, see *Visible Thinking,* by Bryson, Ackermann, Eden, and Finn.[iv])

The results teams would present their recommendations about strategies to the leadership at another retreat. They would refresh the SWOC analysis presented earlier, then add what their research and analysis has suggested about those strategies the organization should continue funding, those it should eliminate, and new strategies it should adopt. Once these decisions have been made, the leadership should adopt three intermediate outcome indicators with which to measure progress on each strategy.

7. Develop a budget to fund the desired strategies.

The leadership would then move into the budget development process, using Budgeting for Outcomes, a methodology pioneered by the Public Strategies Group in the U.S. (www.psg.us). They would start by setting an overall spending target for the next year. They would divide this total among the outcome goals, and within each goal they might choose to assign a dollar figure for each strategy. (These dollar figures for outcome goals and strategies can be modified later in the process if they turn out to be inadequate.)

The results teams would then develop documents called "Requests for Results"—one for each outcome goal. These would take the place of the traditional budget instructions. They would define the desired outcome, present the three indicators that would be used to measure it, then define the strategies to be pursued, the indicators used to measure them, and how much money would be available for each outcome goal and, perhaps, each strategy. In addition to the strategies they had chosen earlier, they could also define more generic criteria, such as, "We would like to see collaborative initiatives between different programs and offices," or, "We would like to see offers that leverage private sector activity and resources as well as public." This would encourage program managers to get out of their silos and look for partners who could help make their programs more effective.

The Requests for Results would go out to all managers, contractors, and other recipients of funds, as an invitation to submit innovative requests for funding. (In subsequent years, the organization could consider letting other organizations, such as non-governmental organizations and even for-profit businesses, submit offers. By doing so, it would sharpen the competition and heighten the innovation.) Any manager, contractor, or other entity funded by the organization would be able to prepare "offers" for funding. These offers would define the program to be funded, the price, the results it would produce, and data from the past (or from another, similar program) that supported its assertion about results. (For more detail about this Budgeting for Outcomes process, see David Osborne and Peter Hutchinson, *The Price of Government* (New York: Basic Books, 2004.))

The organization would be wise to use internal and/or external consultants to train program managers about the offer process and to help them look for innovations that could make their programs more cost-effective. When the offers came in, the results teams would analyze them and group them into three categories: most cost-effective, least cost-effective, and those in the middle. Within each group, they would rank offers from most cost-effective to least cost-effective, until they had all programs ranked. They would "buy" from the top of the list until the money ran out, then draw a line.

At this point they would send their rankings out to all those who had made offers, along with any specific feedback they had. For instance, they might ask for more information or data about results. They might suggest that some managers investigate particular innovations. They might ask still others to explore collaborations with other offerers. Finally, they might ask some to "scale" their offers—indicating what results they could produce with more money or less money.

Seeing their offers ranked below the line or near the line—and thus at risk, in case offers below the line were improved enough to leapfrog theirs—those making offers would get serious about innovation. To ensure that their programs survived, they would be motivated to search for best practices that could make them more cost-effective.

When the final offers came in, the results teams would engage in dialogue with some offerers, looking for more information, specific improvements in offers, and so on. The more interaction, the more creative and effective the offers would become. Once the offers were final, the teams would again rank them, buy from the top, and draw a line. They would forward their rankings to the leadership, which would use the recommendations to put together their budget, making any changes they thought necessary.

8. ***Develop effective implementation processes to operationalize the strategies*.**

Once the strategies and programs have been defined and budgeted, the challenge would be to implement them successfully. In a large organization, operational agencies might need help with this. Successful implementation would no doubt require internal changes within some programs, agencies, and departments.

Consultants, whether internal or external, could help program offices understand their new environment and identify the outcomes and strategies they are now responsible for delivering. They could gather information about strengths, weaknesses, opportunities and challenges in implementation, identify key issues, and facilitate retreats to help program leaders make decisions about how to handle those key issues. This would, in a sense, be a new round of strategic planning within (and, in some cases, across) the organizational silos, to operationalize the new outcome goals and strategies. This step would not be necessary in all organizations.

9. ***Develop a performance management system to learn from experience and continuously improve results.***

The challenge would now be to monitor and learn from results, so the organization could continuously improve its strategies, programs, and work processes. To do this, its leaders should create at least five major pieces of a performance management system.

First, the leader should develop 2-3 year performance agreements with his or her key executives, spelling out the results desired, the rewards to be earned, and the support to be provided and management flexibilities to be granted to make the results possible. These agreements should be negotiated between the leader and the executive (typically a department head or agency director). They would ensure clarity about the most important results to be achieved, incentives for the executive to achieve them, and the management powers he or she would need to make the necessary changes. Typical flexibilities in such agreements include freedom from limits on the number of employees, authority to waive certain personnel and procurement rules, freedom to move money between certain accounts without asking permission, and authority to keep some percentage of money not spent in a fiscal year and use it in the next year. (For more about such "flexible performance agreements, see *The Reinventor's Fieldbook,* by David Osborne and Peter Plastrik.[v])

Second, the leader should meet every month or every quarter with each of these executives, to assess progress in achieving performance goals, discuss which strategies are working, which are not, and why, and make changes necessary to ensure success. (For shorthand, let us call this a "Stat" process, since it has been called "CompStat" in American police departments, where it originated, "CitiStat" in cities, and "StateStat" in states.) Other executives doing related work should be present at these sessions, so that problems could be solved. For instance, when an agency head says, "We can't achieve those results because the procurement rules make it impossible to hire the right contractors," the procurement chief should be in the room and ready to work out a solution. (For more about Stat systems, see *The Price of Government.*[vi])

Third, the organization should negotiate performance contracts with all its contractors, spelling out the results expected, how they will be measured, and the rewards if goals are exceeded and sanctions if results are poor—including loss of the contract if performance falls below a set level. Quarterly reviews could be done with contractors as well.

Fourth, the organization should develop balanced scorecards of performance goals for each program, office, work team and other funded entity (such as contractors and lower level governments), throughout the organization. Balanced scorecards include indicators that reflect at least four factors: success at achieving mission goals, customer satisfaction, employee engagement, and sound financial management. As it does this, the organization should roll out the Stat process at every level, not just at the very top.

Results team members and internal consultants should be heavily involved in these Stat meetings. As they learned more and more about what works, what doesn't, and why, they would become more intelligent buyers in subsequent rounds of Budgeting for Outcomes. Meanwhile, the budget office should be reorganized around the outcome goals, so that several budget office staff become permanent members of each results team. This would help the budget office become better purchasers of results every year.

Finally, when these systems are in place and people throughout the organization are relatively comfortable that they have usable, valuable performance goals, indicators, and data, leaders should develop a system of incentives to reward executives, divisions, offices, and work teams for achieving their goals. The entire performance evaluation process should be redesigned, to focus on achievement of objective performance goals laid out in balanced scorecards, not on subjective ratings of performance by supervisors. (For more on incentives and objective performance evaluation, see *The Reinventor's Fieldbook,* chapters 6 and 7.[vii])

It will be obvious by now that effective strategic and performance management requires a great deal of work. But it is *exactly* the work necessary to make dramatic improvements in cost-effectiveness. The investments demanded—of time, people, and money—yield enormous returns.

Organizations using strategic and performance management systems like these have achieved 5-8 percent annual gains in productivity, year after year.

Because strategic and performance management are so labor intensive, however, it is important not to repeat the basic processes too often. Budgeting for Outcomes only needs to be done every two years: a biennial budget cycle works best, and even if an organization has to use an annual cycle, it might be wise to only do the full BFO process every two years. Similarly, the full strategic planning process would not be necessary in every round of budgeting; it should perhaps be used once every four years.

To sum up, one could look at this strategic management system as a three-legged stool. A strategic plan helps an organization understand where it needs to go and the strategies necessary to get there; a strategic budgeting system lines the money up behind those outcome goals and strategies; and a performance management system measures progress, helps everyone learn what adjustments they need to make along the way, and ensures that they make those adjustments. All of these are valuable activities. But without all three legs, no one would want to sit on the stool.

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[i] James M. Kouzes and Barry Z. Posner, *The Leadership Challenge* (San Francisco Jossey-Bass, 1995), p. 111.

[ii] David Osborne, "Effective Visioning," September 2009, available at www.psg.us.

[iii] David Osborne and Peter Hutchinson, *The Price of Government* (New York: Basic Books, 2004), p. 78.

[iv] John M. Bryson, Fran Ackerman, Colin Eden, and Charles B. Finn, *Visible Thinking* (Chichester, England: John Wiley and Sons, 2004.

[v] David Osborne and Peter Plastrik, *The Reinventor's Fieldbook* (San Francisco: Jossey-Bass, 2000), pp. 124-148.

[vi] Osborne and Hutchinson, *op. cit.,* pp. 163-174.

[vii] Osborne and Plastrik, *op. cit.*