

UNIT 4:

Managing Down:

Operational Management In

The Public Sector



Introduction

Having worked through the previous PSM Program units, you will now realise that there are many influences and constraints on what you can achieve as a manager in a public sector environment. Here we will examine the organisational factors that affect how public sector managers operate. Although, again, there is a range of influences and constraints, the exciting aspect of PSM Program Unit Four is the body of knowledge it contains to help you become, as a manager of people, more effective in utilising the resources at your disposal and delivering public value when managing down.

This unit is primarily about delivering results through managing resources, including human, knowledge, financial, and physical resources. The focus shifts from the higher and wider external context of PSM Program units One and Two (the machinery of government and stakeholders, clients, contractors and so on), and the intense personal focus on yourself in Unit Three, to the organisational environment. The emphasis is on achieving results through and with work colleagues, teams and staff. Briner et al. (1996:17) call this 'looking downwards, managing the team in order to maximise their performance both as individuals and collectively, including managing the visible and invisible team, across disciplines, departments, countries and cultures'. Managing down is about the productive use of human resources to achieve organisational ends and also individual needs, such as job satisfaction, engagement and outcomes.

Although public sector agencies are part of a system of government whose specific role is to carry out the wishes of elected representatives, they can also be viewed as organisations in their own right. Specific features of these organisations, such as structure and culture, will influence a manager's performance and thus need to be clearly understood. Executing the policy of government is a key driver of organisational strategy and organisations are frequently restructured in order to better implement policies. It is useful to be aware of the more flexible forms of organisational structure that inform whole-of-government and network initiatives, including public and private partnerships.

Despite changes of government, public agencies endure and carry with them a wealth of knowledge that informs government through policy advice. Managing this knowledge is vital. Many organisations claim to be 'learning organisations,' and becoming such an organisation is a desirable and lofty aim in an economic and

social milieu that demands frequent change and adaptation.

Prudent management of resources and assets is required of accountable government at all levels. This translates into effective performance management at the individual, group and organisation level, with audits and transparency requirements allowing effective scrutiny.

Professionals such as doctors and teachers assert their professional independence within new public management (NPM) but nonetheless are challenged to practice and lead in new ways including through cross-functional teams and innovative practices.

Enhancing human capital as a means of achieving organisational goals is relevant to all sectors and is captured in concepts of strategic human resource management. The labour market in Australia has changed significantly over the last two decades and this unit aims to understand how to better manage available human resources, particularly in the face of the emerging skills crisis and the unique characteristics of Gen Y.

Good management requires credible and accessible leaders who recognise good performance, live their values and communicate well, particularly during change. Change is frequent in public organisations, but to be useful it must be based on just estimates of change capability. More and more public sector work is concerned with project management, which means managing specific changes with a finite end goal.

This unit introduces both traditional and contemporary thinking on organisational behaviour and management and overviews practical aspects of managing others. This includes various levels of planning – strategic through operational to project management – and the implications for managers in terms of human, knowledge and financial resources. There is a strong emphasis on performance management, since effective performance management in whatever form may be the ultimate vehicle by which public value is delivered. We also address change management since it is critical to look at what works and what doesn't when introducing reform. Here we look not so much at the *content* of change – that is, whether NPM 'works' or is a 'good idea' – but rather how the *processes* of change are executed. This is particularly relevant given cyclical change of government processes.

The structure of PSM Program Unit Four

The downward focus needs to be understood within the context of the organisation's overarching strategy, so we begin PSM Program Unit Four with *Topic One* on strategic management. This is about the organisation determining its overall direction and purpose, taking into account changes in the external environment and other influences on its operations and ends. In more common terms, strategic management is about vision, mission, values and goals.

In *Topic Two* we look at how the organisation is structured, that is, how it is divided and assembled in order to get the work done. Many configurations are possible. Public organisations tend to adopt a functional structure but other options include matrix and team structures that are more useful for cross-disciplinary co-ordination. Every organisation has a culture that can be described as the personality of the

organisation, a variable that distinguishes it from other organisations. Culture consists of norms, values and taken-for-granted assumptions about ‘how we do things around here’. This intangible feature of the organisation has a powerful influence, either positive or negative, over members’ behaviour.

Topic Three discusses the idea of a learning organisation. This is an organisation that, because all members are attuned to learning, is continuously able to reinvent itself and adapt to change. Many organisations espouse learning organisation rhetoric but often do not meet the criteria upon closer scrutiny. Modern organisations recognise that the tacit and explicit knowledge of their members constitutes a key asset that should be managed accordingly. In the current skills shortage, organisations lacking the expertise needed to accomplish their mission tend to place greater emphasis on learning and knowledge management. Managers must find creative ways to capture and transmit the knowledge of the retiring Boomer cohort.

Public sector managers may have limited discretion when it comes to managing finances, yet the budget determines much of what can be achieved in organisations. *Topic Four* therefore pays attention to this aspect of managing down. The allocation of dollars affects team goals and also dictates reporting requirements.

Topic Five looks at strategic human resource management (SHRM). This deals with the utilisation of an organisation’s human capital for achieving goals. In theory, human resources are a vital asset to be taken into account rather than a cost to be minimised, although organisations vary in their approach to SHRM. Downsizing is often the first response of private sector managers in tight economic times. Managers in the public sector, however, generally enjoy leading teams and watching the individuals within them develop.

Most organisations today have some form of performance management system for their staff. *Topic Six* addresses the process of performance management at the individual, group and organisational level. Performance management is one way that organisations can evaluate whether goals set in the strategic planning cycle are being achieved at the operational level.

Much of what we addressed in PSM Program Unit Three about you as an individual can also be applied to your team. In *Topic Seven* we look at leadership and teams more closely. The theme of inter-personal management is carried through into *Topic Eight*, which deals with job satisfaction and motivation.

Change is now well accepted as a fact of organisational life and many managers have acquired some competence in managing change. *Topic Nine* reinforces ideas about how to conduct change more successfully. It also looks at innovation. Business-as-usual has not proved effective in solving wicked problems, so the challenge is to be more creative, flexible and innovative.

Finally, *Topic Ten* investigates basic techniques in project management that can be used to steer a finite task towards successful completion in a set time frame with structured tools and techniques.

Having sketched out the main steps in this Unit, let us start with *Topic One*.

TOPIC ONE:

Strategic Management



Overview

How well public sector managers do their jobs has global implications, since an effective and well-managed public sector improves the private economy and national competitiveness (Hughes 1994). Strategic management is the means by which the organisation sets its overall direction and purpose, chooses its key areas of focus, and develops its objectives and plans accordingly. The aim is to achieve effective and well-managed organisations.

We examine strategic management in the public sector, particularly Kaplan and Norton's (2001) balanced scorecard (BSC). The BSC uses an easily communicated, visual presentation of a select few focus areas to unite all levels of the organisation under a common vision. Research evidence suggests, however, that Australian public organisations have yet to embrace the true spirit of the BSC.

Are you familiar with Mintzberg's ideas on strategy? Do you know the McKinsey 7-S model? In this topic we canvass a range of definitions and models of strategic management and look at how well this aspect of management can be operationalised in the public sector. It is likely that PSM Program participants are familiar with strategic management. The challenge in this unit is to understand and deal with it in the public sector context. In the public sector, strategy is associated with policy, and this presents challenges that are much more wide-ranging than those faced by other organisations.

Once the strategic direction has been set, senior management needs to ensure that the organisational structure and culture support it adequately, as we shall see in *Topic Two* and *Topic Three*.



Learning Objectives

On successful completion of this topic, you will be able to:

1. Compare conceptual models of strategic management.
2. Debate whether strategic management is applicable to the public sector and discuss constraints and opportunities in the sector.
3. Explain levels of strategic management.
4. Describe techniques such as SWOT, McKinsey 7-S model and the balanced scorecard.
5. Appreciate critiques of strategic management.
6. Describe the resource management cycle in implementing strategy.

1.1 Strategic Management: Conceptual Models

Strategy in a public sector context is the art of creating value. It provides the intellectual framework, conceptual models and governing ideas that allow managers to identify opportunities for bringing value to the public and for delivering that value at acceptable cost, as well as integrating conflicting stakeholder expectations. Strategy is the way an organisation defines its mission and links together key resources that matter: knowledge relationships, competencies and clients (Normann & Ramirez 1993). Organisational strategy concerns long-term goals and objectives. It is about creating and adopting courses of action and allocating resources necessary to achieve organisational goals and objectives (Chandler 1991).

Strategic management is a systematic process through which organisations agree on – and build commitment among key stakeholders to – priorities which are essential to mission and responsive to the operating environment (Allison & Kaye 1997). Strategic management is ongoing as well as concerned with long-term performance. It is designed to move the entire organisation from its present position to a more desired position in the future – perhaps years or even decades away. In contrast to ‘business-as-usual’, to achieve the balance necessary between long-term and short-term objectives, strategic management simultaneously identifies future opportunities, manages new projects (innovations and/or improvements) and controls existing operations.

Strategic management is also concerned with responses to a range of stakeholders and, perhaps most importantly, building on the knowledge and capabilities of its human resources. Using knowledge to create a space for organisational activities and as a guide for behaviour becomes important for gaining competitive advantage and being effective and efficient (Allison & Kaye 1997).

1.1.1 Definitions

Strategic management is based ultimately on military strategy, and it draws on the received wisdom of ancient and modern sources such as Machiavelli, Lenin and Mao Zedong (Mintzberg & Quinn 1996). To introduce or refresh understanding, here are several definitions:

- Strategic management is the art and science of formulating, implementing and evaluating cross-functional decisions enabling organisations to achieve objectives (David 1993:5).
- Strategic management is a systematic approach for managing change that includes: positioning organisations through strategy and capability planning; real time response through issue management; and managing resistance during implementation (Ansoff & McDonnell 1990:xvi).
- Strategic management determines mission, vision, values, goals, objectives, roles and responsibilities and timelines (PIM 2007:1).

- Strategic management is analysing, deciding and acting by organisations to develop and maintain competitive advantage (Lumpkin 2007:3).
- Strategic management involves a perceived pattern in actions generated by the circular loop between discovery, choice and action that is the management process: strategic management is a feedback loop connecting discovery, choice and action (Stacey 1993:3–5).
- Strategic management should ‘consider ... long-term strategy as well as ... short-term capability. Important to this are core capabilities and core competences, cross-functional management, and top executive audits, which, when managed properly, explicate a new view of strategic fit, as a form of nested hierarchies of dynamic capabilities’ (Witcher & Chau 2007:518).

To start with some basic information, an overall model of strategic management is shown in Figure 1.1

Figure 1.1 A Model for the elements of strategic management



Source: Johnson, Scholes & Whittington 2006:16.



Activity 1.1 – Strategy in your organisation

Read through the above definitions. Identify which is more applicable to strategic management and planning in your organisation. Justify your responses. Create one combined definition that synthesises the key points from each of the definitions and eliminates any overlap.

1.1.2 Delving Deeper

Strategic management involves decisions that are important, not easily reversible and that require a commitment of resources for a significant period of time. Taking a more detailed look at one definition, strategy is:

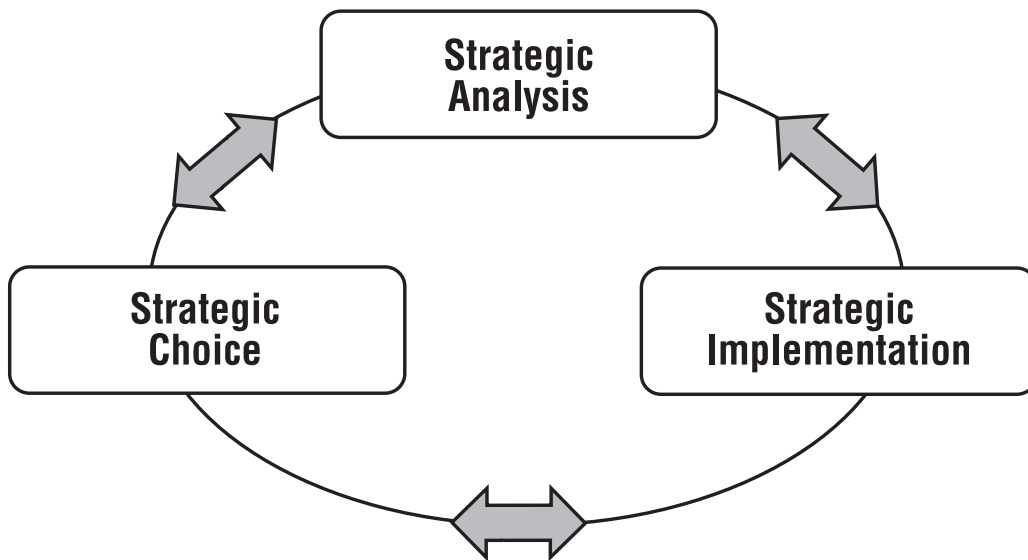
... the pattern or plan that integrates an organisation's major goals, policies and action sequences into a cohesive whole. A well-formulated strategy helps to marshal and allocate an organisation's resources into a unique and viable posture based on its relative internal competencies and shortcomings and dissipated changes in the environment and contingent moves by intelligent opponents (Mintzberg & Quinn (1996:3)).

We can see that this definition combines many key elements, from the high-level organisational position to detailed implementation. Public sector organisations do not have the same freedom of self-determination and self-directed action as private firms, and these constraints are not recognised in the definitions provided so far.

1.1.3 Simple conceptual model

At the broadest level, strategic management can be considered as having three elements, as listed below and shown in Figure 1.2. .

Figure 1.2 Simple conceptual model of the overall strategic management process



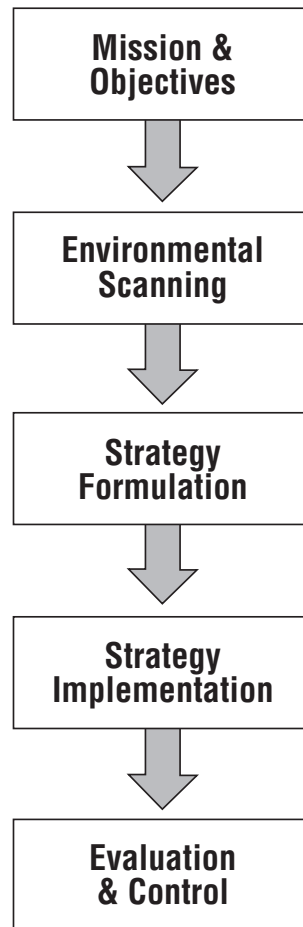
Source: Johnson & Scholes 1993: 17.

1.1.4 A more detailed model

A more detailed conceptual model is shown in Figure 1.3.

Figure 1.3 A more detailed conceptual model

The Strategic Planning Process



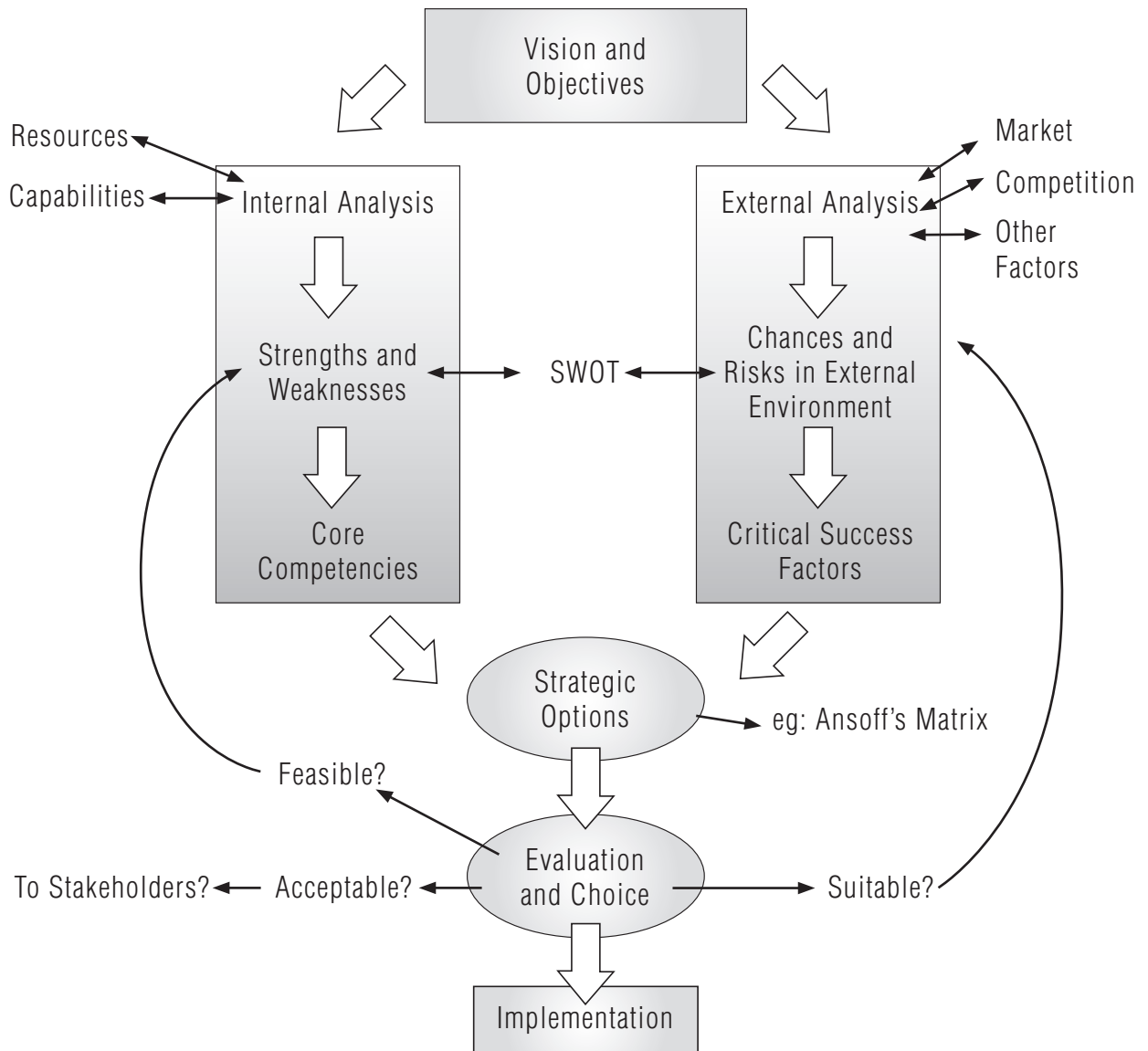
Source: QuickMBA 2005:np.

If this second conceptual model represented strategic management in practice, there would be many arrows going back and forward between the elements and around the figure to show feedback.

1.1.5 Third conceptual model

The complexity and dynamics of strategic management are more fully represented in a third conceptual model shown in Figure 1.4. This figure lists mission and values, which loosely equate to mission and objectives at the top of the preceding figure. It adds details of what constitutes environmental scanning on the right-hand side, and elaborates on internal aspects of the organisation that need to be considered, on the left-hand side.

Figure 1.4 Conceptual model showing more of the complexity and dynamics of strategic management and planning



Source: Mintzberg et al. 1998:23.

Strategic management requires harmonisation between the internal skills and resources of the organisation and its external environment.

1.2 Strategic Management and the Public Sector

Strategic planning arrived on the scene in the 1960s (Mintzberg 1994) and was introduced in the public sector in the 1980s, later than the private sector (Hughes 1994). Now, every public sector manager has some kind of strategy-creating and strategy-implementing role. Strategy has direct and significant relevance to the public sector, but takes a different form. The main point of difference is for public

organisations to provide best value (Scholes & Johnson 2008). One public sector manager summed up the reasons why strategic management is getting more attention today:

Public services in the 21st century have to adapt to a world where workforces are mobile and looking for intrinsic rewards, where decision-making and policy advice are increasingly driven by reactive media relations and the fast pace of change in the external environment, where customer expectations are high, many services are being privatised or outsourced, and there is a greater emphasis on collaborative ways of working and cross-functional teams.

Making sure that government policy guides and determines organisational action is another advantage of strategic management, since focusing on policy ensures that agencies are responsive.

1.2.1 Organisational Survival and Competition

Private sector strategic management is often concerned with organisational survival. There is a high rate of failure for new and even well established businesses. Should this be of concern to public managers? In other words, can public agencies 'die'? United States research (Rainey 2003) provides contradictory figures for organisational longevity in the public sector. In one study (between 1923–1974) ninety-four per cent of organisations still existed at the end of the period, although not necessarily under the same name. In a second study (between 1946–1997) sixty-two per cent were terminated – or conversely only thirty-eight per cent still existed at the end. From this research it would appear that public sector agencies must increasingly pay attention to the ideas of organisational survival.

A second dominant theme in strategic management is competition. The public sector is subject to increasing competition, as the following extract (Barrett 1999:4) indicates:

(In the APS) of major significance was the rewriting of the Public Service Act and the Government's unsuccessful attempt to win its passage through the Parliament without substantial amendment. Champions of the new legislation, appearing before the Public Accounts Committee, offered a spirited advocacy of its benefits:

- *it will allow public servants to walk the same green fields and to gaze at the same blue skies as private sector managers; public servants can benchmark and market test, contest and compete for the delivery of services to government [Shergold]*
- *better value from public funds; a more effective, efficient and ethical Public Service and a more flexible, rewarding and innovative workplace [Reith]*

The extract mentions several strategic intentions of government. However, the first comment from Shergold specifically identifies competition – or 'contestability'.

1.2.2 Public Value

The public sector is driven by the desire to meet clients' needs through adding value to services, amongst other aims. Governments want to know that the public sector is performing to expectations and implementing government policies. Similarly, clients want to see that they are getting good service, and taxpayers want value for money and effective and efficient service delivery. We have seen in earlier units that creating public value requires a strategic, proactive approach (Scholes & Johnson 2008).

1.2.3 Government Pressure

Government pressure is another reason why public sector agencies have adopted strategic management and planning. Like their counterparts around the world, Australian governments embarked on major programs of privatisation, deregulation, outsourcing and downsizing to increase efficiency and effectiveness while reducing costs. These reforms demand that public sector managers understand strategic management and planning processes at the organisational and work unit levels and to apply them in their sphere of influence.

1.2.4 Constraints on Application

Public organisations are not free to set their own strategies. Their job is to implement government policy. How government develops long-term strategic policy is addressed in an article by McClintock (2003) with particular reference to the approach taken by the Howard Government.

In Bryson's (1995) book *Strategic Planning For Public and Non-Profit Organisations*, a number of issues about developing and achieving strategic objectives are highlighted. Bryson states emphatically that these processes are more complex in the public sector.



Activity 1.2 – Food for thought

Do professionals in the public sector have an obligation to be forward thinking and take a long-term view, even if their political masters don't? Environmental improvement, developing infrastructure and solving social ills don't happen over night and may require sustained thinking, research, planning and analysis. Should public sector professionals carry on with this and develop the expertise to give good advice to the minister, even if the minister's office has a revolving door?

Gortner, Mahler and Nicholson (1997:175) take up a similar theme to Bryson. The problems and constraints of the public sector include:

- constitutional arrangements
- legislative and judicial mandates – public organisations are mandated to provide specific services
- government-wide rules and regulations limit the scope of activity

- political climate
- clients, citizens and constituents have clashing interests
- public sector organisations find it notoriously difficult to decide exactly what they will do
- strategy and budgeting are complicated by the input (some would say interference) of politicians
- election cycles and changes of government ‘move the goal posts’ and change the focus making it more difficult to conduct long range planning

Partnerships are particularly pertinent in contemporary public sector strategy (Scholes & Johnson 2008) but make the administrative and bureaucratic processes inherent in government more difficult to manage.



Activity 1.3 – Challenges for public sector strategic management and planning

Critically appraise each of the points raised by Gortner et al. (1997). Draw upon your own experiences and discuss with colleagues or fellow PSM Program participants where appropriate.



Required Reading 1.1

Stewart, J 2004, ‘The meaning of strategy in the public sector’, *Australian Journal of Public Administration*, vol. 63, no. 4, pp. 16–21.

This succinct reading does an excellent job of straddling the political theory/management divide. It acknowledges the differences between the management and political science disciplines and whether strategic management as a private concept is applicable to the public sector. It contrasts strategy in the sectors, looks at strategy in Westminster systems and then in Australia in particular, reiterates the limitations of strategy, introduces the political factor which is ignored in management texts and then goes on to expound the value of strategy in the public sector by talking about *policy strategy* along with the more conventional *organisational and managerial strategy*. Importantly, it offers valuable suggestions for making strategy a more authentic exercise in the public sector, which may be very much needed if strategy is about complying with government directives rather than a genuine attempt to innovate and solve wicked problems.



Activity 1.4 – Required Reading 1.1

What do you think the main point of the reading was? What did you learn most? How well or otherwise does it apply in your work experience? What other comments or observations would you make?

1.2.5 Research on the public sector

Strategy can work in the public sector and definitely adds public value. It is not as if public organisations have no choice in how they conduct themselves. Although they are constrained, they are nevertheless able to offer new services, as for example when health organisations create new campaigns to combat obesity or adapt new technology.

A total of 119 local governments in UK were studied to see what strategy they had and how it was related to performance. Local governments now provide a lot more services than the traditional 'rates, roads, and rubbish', including local community services which they may extend to new geographical areas. There are also ways to expand public sector budgets, including seeking external revenue, increasing internal revenue, gaining more state funding and persuading the state to pay for high cost items (Andrews, Boyne & Walker 2006).

Andrews, Boyne and Walker (2006) approached the study as follows:

The strategic stance dimension of our classification is based on Miles and Snow's (1978) typology and includes prospectors, defenders, and reactors. At a conceptual level, these categories appear to cover the major organizational responses to new circumstances: innovate (prospector), consolidate (defender), or wait for instructions (reactor). We also propose that organizations may display a variety of strategies: They are likely to be part prospector, part defender, and part reactor, reflecting the complexity of organizational strategy.

Prospectors display the key attributes of innovative organizations: They are likely to be pioneers, leaders in the field, and perhaps innovation award winners. Defenders do not strive to be leaders in the field but instead are late adopters of innovations once they have been tried and tested. They take a conservative view of new product development and focus on a narrow range of services, their core activities, to retain their existing portfolio of activities and protect their share of the public budget from attacks by predatory organizations.

In contrast to prospectors and defenders, reactors have no consistent substantive stance. Although managers in reactor organizations frequently perceive change and uncertainty, they lack a coherent strategy because the organization "seldom makes adjustment of any sort until forced to do so by environmental pressures" (Miles and Snow 1978:29). Indeed, a reactor stance has been equated with an absence of strategy (Inkpen and Chaudhury 1995). Reactors, therefore, are likely to have a formal stance imposed by external agencies, such as regulators. Even if a reactor is instructed to behave like a prospector, it may lack the culture and expertise to successfully adopt this strategy. (Andrews, Boyne & Walker 2006:51).

In this study performance was measured based on a comprehensive Audit Commission range of measures including quantitative and qualitative service and other indicators. Results showed that organisations with a *prospector* strategy were better performers, whereas a *reactor* strategy was associated with poorer performance. These results are interesting for two reasons. First to show that the concept of strategy is relevant to public organisations and also that the right strategy improves performance.



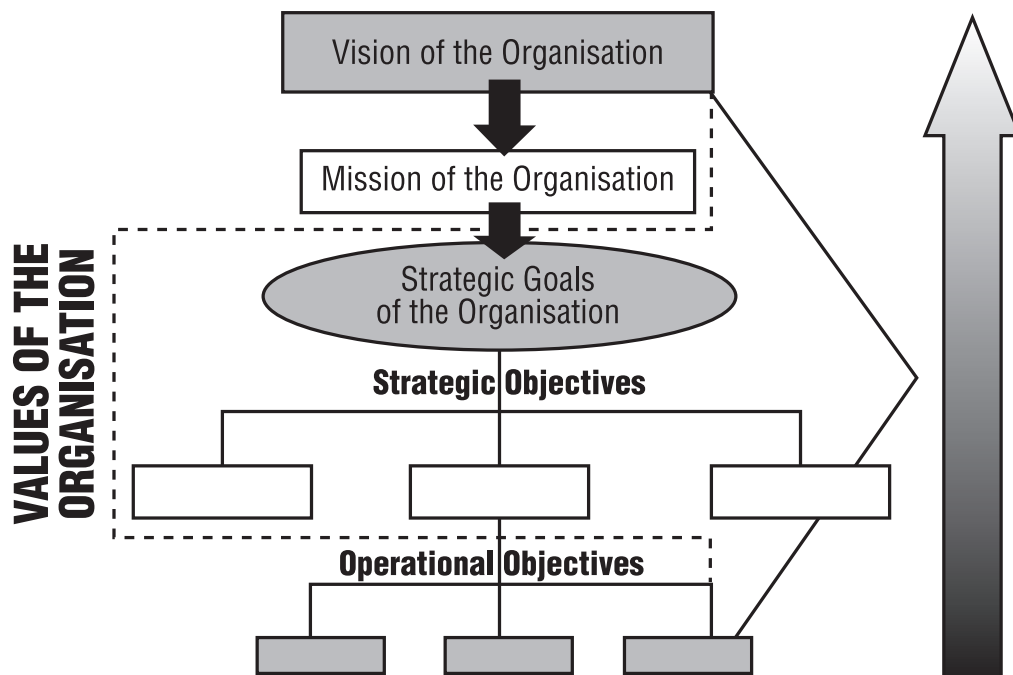
Activity 1.5 – Three types of strategy

The UK study described above mentions three different types of strategy. Briefly list and explain the three. Which of these would you say characterises your organisation? (it is likely that different strategies apply to different parts of the organisation or apply differently depending on whether you take a local or wider view, so be specific). What does the example say about the relationship between strategy and performance? Can you see any parallels in your organisation? What data can you use to back up your answers (ie the UK study has audit data – can you supply the same?).

1.3 Levels of Strategy and Line of Sight

In this section we discuss details about implementing strategy at different levels in the organisation and developing a line of sight. The interplay between high level, organisation-wide mission, vision or values and different levels of strategy is shown in Figure 1.5.

Figure 1.5 Relationships between values, vision and mission and levels of objectives



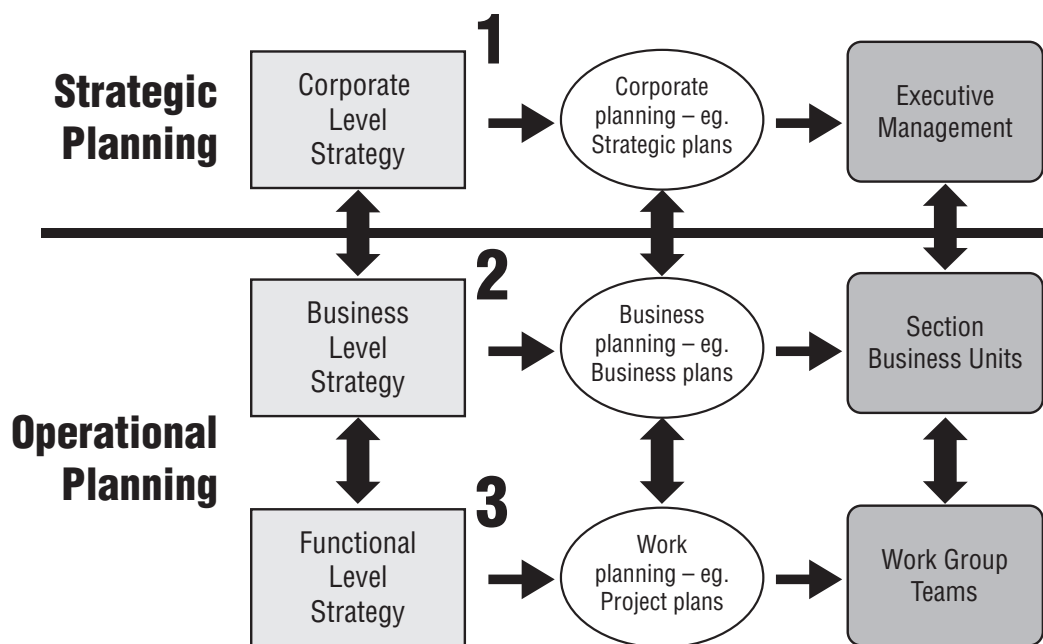
Source: Thorburn 2002, reprinted with permission.

1.3.1 Levels of Strategy

The structured, rational and logical practice of traditional strategic management is based on an approach known as management by objectives (MBO). There are three levels – corporate, business and functional – with objectives and plans developed at each level (Overton 1998).

The relationship between the three levels is shown in Figure 1.6.

Figure 1.6 Relationships between strategy, planning and levels



Source: Thorburn 2002, reprinted with permission.

1.3.2 Line of Sight

The role of the public sector manager in ‘middle leadership’ is aligning team and individual work with the organisation’s strategy, as well as facilitating the reverse information and influence flow, from the lower levels to the higher levels.



Activity 1.6 – Strategic management and planning in your organisation

This task requires you to reflect upon strategy and planning practices in your agency and make judgments about the current strategic management and planning situation and the planning links that exist between the levels.

1. To complete this task, you will need to list a selection of strategy and planning documents from three levels. For example:
 - corporate planning documents
 - business planning documents
 - work plans.
2. Select a planning document from each of the three levels. To make this task easier, choose one particular aspect of management to focus on across each of the levels. For example, fraud management, risk management, financial management, procurement, occupational health and safety, or performance measurement..

3. Once you have the three documents – one for each of the planning levels for the same concept – ask yourself the following question: Is there a link between all three levels of planning in the chosen management area?
 4. Using the above question, write a brief summary explaining the relationship between the levels of planning observed in the three documents studied. Is there a clear line of sight? Highlight strengths and weaknesses. Provide specific examples to illustrate where links have been made between planning documents. Highlight areas where improvements are required and suggest possible solutions.
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In theory, there should be a clear line of sight from the lowest level operation to the top organisation strategy, especially the vision, mission or values.

1.4 Techniques and Models

The first task of a strategic plan is to address strategic thinking. This thinking requires a change of mindset from reactivity to proactivity: engaging in creative processes mapping a path to the future.

1.4.1 Environmental Scanning

What is the environment? It is all things external to your organisation and it can be fluid, relatively fixed or chaotic. It includes clients, the public, suppliers, other organisations and is subject to political, economic and social forces. An intimate knowledge of the environment is needed to continually reassess whether products, policy or services are continuing to create value. A different mindset for coping with change is needed. 'Instead of seeing uncertainty as a problem we should start seeing it as the basic source of our future success' (Van der Heijden et al. 2002:13).

Part of strategic management involves taking a hard look at the current situation. It involves gathering up-to-date information about the external and internal environment. A number of techniques exist. 'PESTEL' analysis is useful since it prompts thinking about six components of the external environment that may influence the organisation's fortunes (Johnson, Scholes & Whittington 2006). The six are: Political, Economic, Social, Technological, Environmental and Legal. It is clear that all of these six factors are eminently relevant to public sector organisations. The following example from the Victorian Department of Primary Industries (DPI 2008) shows how *social* factors (such as community demands for involvement and changes in wealth, education and so on) and *economic* and *environmental* changes (such as drought and climate change) are influencing the department to adopt new management paradigms.

Communities worldwide are demanding greater involvement in government decisions that affect their lives. For primary industries this poses significant opportunities and challenges. Increasingly, the population is becoming wealthier, more educated, more

urbanised and less connected with primary production systems. These trends are also associated with increasing concerns about health, well-being and the environment.

These shifting values result in a suite of economic, environmental and social drivers changing primary industries and rural communities. This is resulting in new rural landscapes with changing settlement patterns, new industries and retiring industries. To manage rural Victoria's patchwork of growth and decline as rural industries restructure, the challenge for government is to respond so that all Victorians have equitable access to the resources they require. To help frame the government response, this project seeks to understand the nature of change in both government administration and rural Victoria, and identify new ways of doing government business with people (DPI 2008:1)

Out of all six PESTEL factors, the only one that isn't mentioned in the example is the *technological*, but there is no doubt it is having an effect.

1.4.2 SWOT Analysis

Here we will start with the most popular method for environmental scanning, the SWOT analysis. It consists of a candid compilation and appraisal of the organisation's internal strengths and weaknesses and its external opportunities and threats.

This technique, first published in the 1960s in the *Harvard Business Review*, has been extended to a whole range of management decisions. In conducting an environmental assessment using SWOT, there are a number of factors to look for, as shown in Table 1.1.

Table 1.1 SWOT analysis

INTERNAL	
<p>STRENGTHS</p> <p>For example: Adequate financial resources? Good competitive skills? Well thought of by clients? Cost advantage? Product/ service innovation abilities? Proven management? Acknowledged market leader? Barriers to entry? Access to economies of scale? Diverse and skilled workforce?</p>	<p>WEAKNESSES</p> <p>For example: No clear strategic direction? Obsolete facilities? Lack of management depth or talent? Absence of key skills or competencies? Too narrow a product/ service line? Insufficient funds? Poor knowledge of competitors?</p>
EXTERNAL	
<p>OPPORTUNITIES</p> <p>For example: Serve additional client groups? Enter new markets or segments? Expand product/service line to meet broader range of client needs? Diversify into related products/services? Adopt new technology?</p>	<p>THREATS</p> <p>For example: Political instability globally? Change of government? New minister? Rising demand for substitute products or services? Changing needs of client group? Government policy decisions? Growing competitive pressures? Technology obsolescence? Reduction in appropriations?</p>

The external analysis in a SWOT can use the six PESTEL factors to make a systematic analysis, thus combining two different models.

1.4.3 Stakeholder Analysis

Stakeholders provide vital information for assessing the internal and external environment, thus contributing to a SWOT analysis. They provide information on the market, potential strengths and weaknesses and often see opportunities and threats from a 'fresh' perspective. Stakeholders include people, organisations or groups with an interest or stake in the line of business, as we saw in PSM Program Unit 2 *Managing Out*, and will see in more detail in *Topic Ten*.

A number of questions should be asked of stakeholders when determining characteristics of the internal and external environment. These include:

- What does this stakeholder say about your organisation's or business unit's strengths and weaknesses?
- What problems need solving?
- What trends do they perceive as either opportunities or threats?
- What does this stakeholder need or expect from your organisation or business unit?
- What criteria do they use to judge your outcomes?
- How well does your organisation or business unit rate (excellent, good, fair, poor)?
- Why such a rating?
- What does this stakeholder want you to do more or less of?
- What additional or increased programs or services do they think you should be offering if resources were available? (Allison & Kaye 1997).

Conducting a stakeholder analysis is an example of a more holistic approach to strategic management which takes account of some of the 'soft' factors.

1.4.4 Scenario Planning

Scenario planning is a free flowing, brainstorming way of thinking about the organisation, which works in the more turbulent and unpredictable environment in which all organisations now operate. Planning five years out is often not feasible hence the need for flexibility and tools such as scenario planning.

Van der Heijden was former head of Business Environment at Royal Dutch Shell. In *The sixth sense* (2002) he unites with colleagues from the University of Strathclyde, Centre of Scenario Planning and Future Studies to present a persuasive case for the use of future scenarios as a way of preparing for and adapting to a range of possible futures. The authors eschew 'traditional' strategic planning which attempts to predict, control and determine the future, in favour of 'what if' thinking which contemplates a range of probable and, importantly, improbable, futures. Scenario planning involves anticipating and planning for various eventualities – even ones that seem unlikely or inconceivable such as the Indian Ocean tsunami disaster taking 270 000 lives, the London tube and bus bombings, the China earthquake and so on.

The general steps of scenario planning are:

- structuring the scenario process
- exploring the scenario context
- building the scenarios
- identifying the driving forces in the environment
- undertaking a stakeholder analysis
- understanding the impact on organisational thinking and action.

Scenario planning may be uncomfortable because it is based on the premise that the way managers normally work may be wrong (Van der Heijden et al. 2002:63).

Scenario planning involves constructing multiple frames of future states of the external world, only some of which may be aligned with current strategy. Because it advocates contingency planning for unfavourable as well as favourable futures, it ties in well with risk management approaches which require us to at least think about ‘what is the worse thing that could happen’ even if we hope it doesn’t. Scenario planning could also be used to deliver a ‘wicked-problem-solving’ strategy.

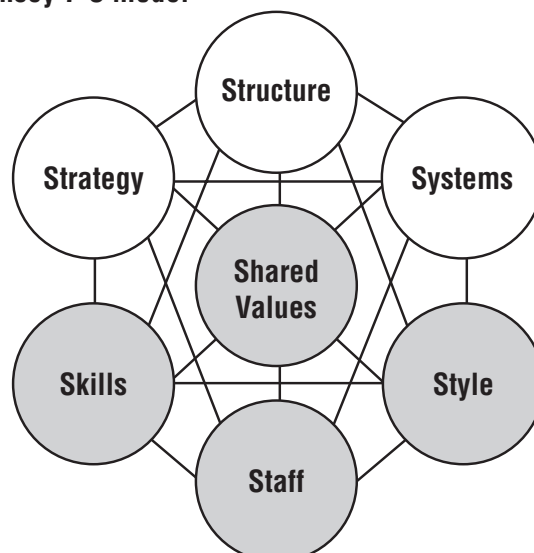
1.4.5 Techniques that Account for both Hard and Soft Factors

Traditional strategic planning has been criticised for focusing on performance, finances and other ‘hard’ indicators such as market share. This ignores the ‘soft’ factors and fails to capitalise on the inherent skills and wisdom of existing managers.

1.4.6 The McKinsey 7-S Model

The 7-S is also known as McKinsey 7-S and was developed by Tom Peters and Robert Waterman in the early 1980s (Waterman et al. 1980:14). It is based on the premise that an organisation is not just a ‘hard’ structure, but also culture and other intangibles. The McKinsey 7-S model emphasises the arational aspects of strategic management. This is recognised in the seven elements, which as depicted in Figure 1.7, are divided into so-called hard Ss and soft Ss.

Figure 1.7 McKinsey 7-S model



The hard elements – strategy, structure and systems – are tangible and easy to identify. They can be found in strategy statements, corporate plans, organisational charts and other documents. The four soft Ss – shared values, skills, staff and style – are hardly tangible. Although they are below the surface, they have a great impact on the hard elements of the organisation. It makes sense to focus on the ‘soft’ elements of strategy because employees are the unique resources that add value to an organisation. The workforce can confer distinctive competencies on organisations and are the means by which flexible and innovative policies and problem solutions are executed (Cardy, Miller & Ellis 2007). This is particularly relevant in the public sector where the challenge is not to beat the competition but rather to deal with a complex range of policy, compliance and service delivery issues and problems.

These 7 S elements are described in Table 1.2.

Table 1.2 McKinsey’s seven elements

THE HARD Ss
Strategy – actions that an organisation plans in response to or in anticipation of changes in its external environment
Structure – basis for specialisation and coordination, influenced primarily by strategy and by organisation size and diversity
Systems – formal and informal policies and procedures that support the strategy and structure
THE SOFT Ss
Style/culture – the dominant values, beliefs and norms that develop over time and become relatively enduring features of organisational life and management style. More a matter of what managers do than what they say. How do an organisation’s managers spend their time? What are they focusing attention on?
Staff – the people/human resource management. Processes used to develop managers, socialisation processes, ways of shaping basic values of management cadre, ways of introducing recruits to the organisation, ways of helping to manage the employees’ careers
Skills – the distinctive competencies . What the organisation does best, ways of expanding or shifting competencies
Shared values – guiding concepts, fundamental ideas around which an organisation is built. Must be simple, usually stated at abstract level and have great meaning inside the organisation even though outsiders may not see or understand them

Source: Peters & Waterman, 1982:57.

In change and strategic management processes, many organisations focus their efforts on the hard Ss – strategy, structure and systems. They care less for the soft Ss – style, staff, skills and shared values. Yet repeated studies show that internal knowledge and skills confer huge advantages on organisations. Human capital theory argues that developing competence by investment in training and development adds value to human capital. Developing a learning culture in the organisation aids the implementation of these ideals (Garavan 2007).



Activity 1.7 – McKinsey 7-S and your organisation

The purpose of the following activity is to enable you to apply the McKinsey 7-S model to your organisation.

1. Draw up and complete the table below based on the information provided about the McKinsey 7-S model and your own experience.
2. Can you identify all seven? If not, which ones can't you identify? Why do you think this is?

Element	What has your organisation initiated to address this element?	What is the current state for this element?	What is the desired state for this element?	If there is a difference between the desired and current states, what strategies can you suggest to reduce it?
Strategy				
Structure				
Systems				
Style/culture				
Staff				
Skills				
Shared values				

1.4.6 The Balanced Scorecard (BSC)

The BSC, a strategy and performance management tool, is an approach with which you may already be familiar. Robert Kaplan and David Norton first introduced the idea in the January–February 1992 issue of the *Harvard Business Review*. Almost immediately it gained favour with organisations that sought more well-rounded, forward-looking approaches to strategic management. The BSC has gained wide acceptance as an important strategy tool with the scope for enhancing organisational outcomes (Hendricks, Menor & Wiedman 2004).

The need for such a tool emerged out of growing recognition that financial measures alone were insufficient to manage the modern organisation. These traditional financial performance measures were considered to be short-term, focused on past performance rather than the future and less relevant in today's information and services-based world (Management Advisory Board 1997).

The BSC provides managers with a succinct but comprehensive view of organisational performance as it focuses on two key elements:

- balance – between financial/operational and hard/soft data (for example incorporating McKinsey 7-S)

- scorecard – to measure and enhance performance throughout an organisation – possibly with an MBO approach as discussed above, that filters through to individual performance management.

General principles are displayed in Figure 1.8 and each will be briefly discussed in the next section.

Figure 1.8 The principles of a strategy-focused organisation



Source: Kaplan & Norton 2001:56.

1.4.6.1 The BSC in Action

For public sector agencies there are benefits from using the BSC:

- preventing information overload by limiting the number of measures used
- balancing time perspectives – both current and future drivers of performance are addressed
- providing managers with complex information at a glance
- ensuring that managers are managing all the important variables – not just the financial ones or the 'easy' ones, or conversely, too many including less significant ones (MAB 1997a).

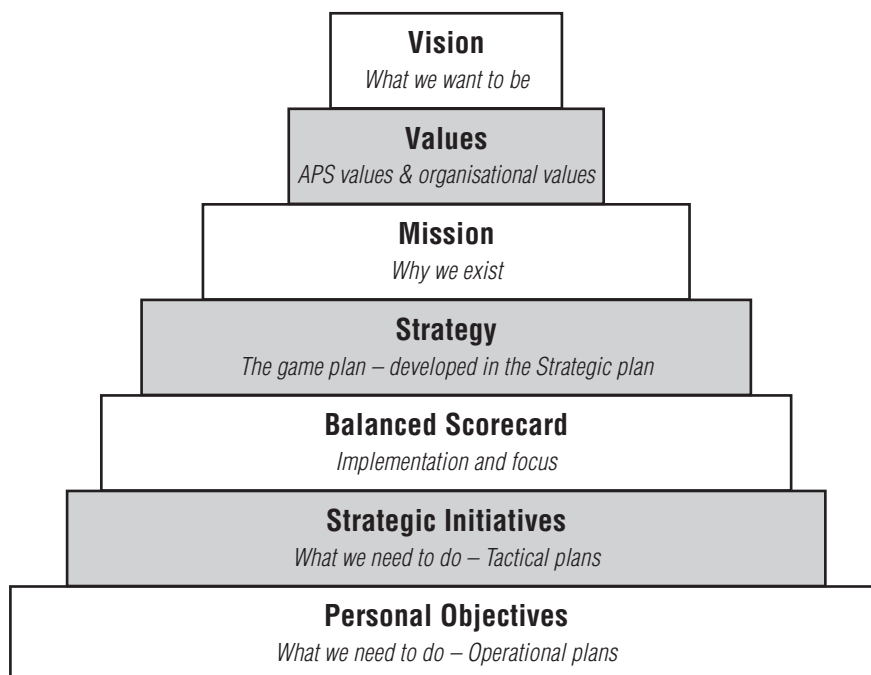
The BSC also promotes ethical processes because it encourages a more rounded view besides just focusing on the financial bottom line. It aligns with the move towards corporate social responsibility and triple bottom line reporting.

Triple bottom line reporting is addressed in more detail in *Topic Four*. Briefly, it is a response by organisations to demands for more transparency and accountability beyond the traditional reporting of financial performance. The three lines in the triple bottom line are social, environmental and financial:

- *Environmental includes impacts made through processes, products or services. These may include air, water, land, natural resources, flora, fauna and human health.*
- *Social includes involvement in shaping local, national and international public policy, equality, treatment of minorities, employee issues and public concern.*
- *Financial includes financial performance, activities relating to shaping demand for products and services, employee compensation, community contributions and local procurement policies (CPA Australia 2008:1).*

There are five principles for putting the BSC into practice. The principle is illustrated in Figure 1.9.

Figure 1.9 From organisational vision to desired outcomes



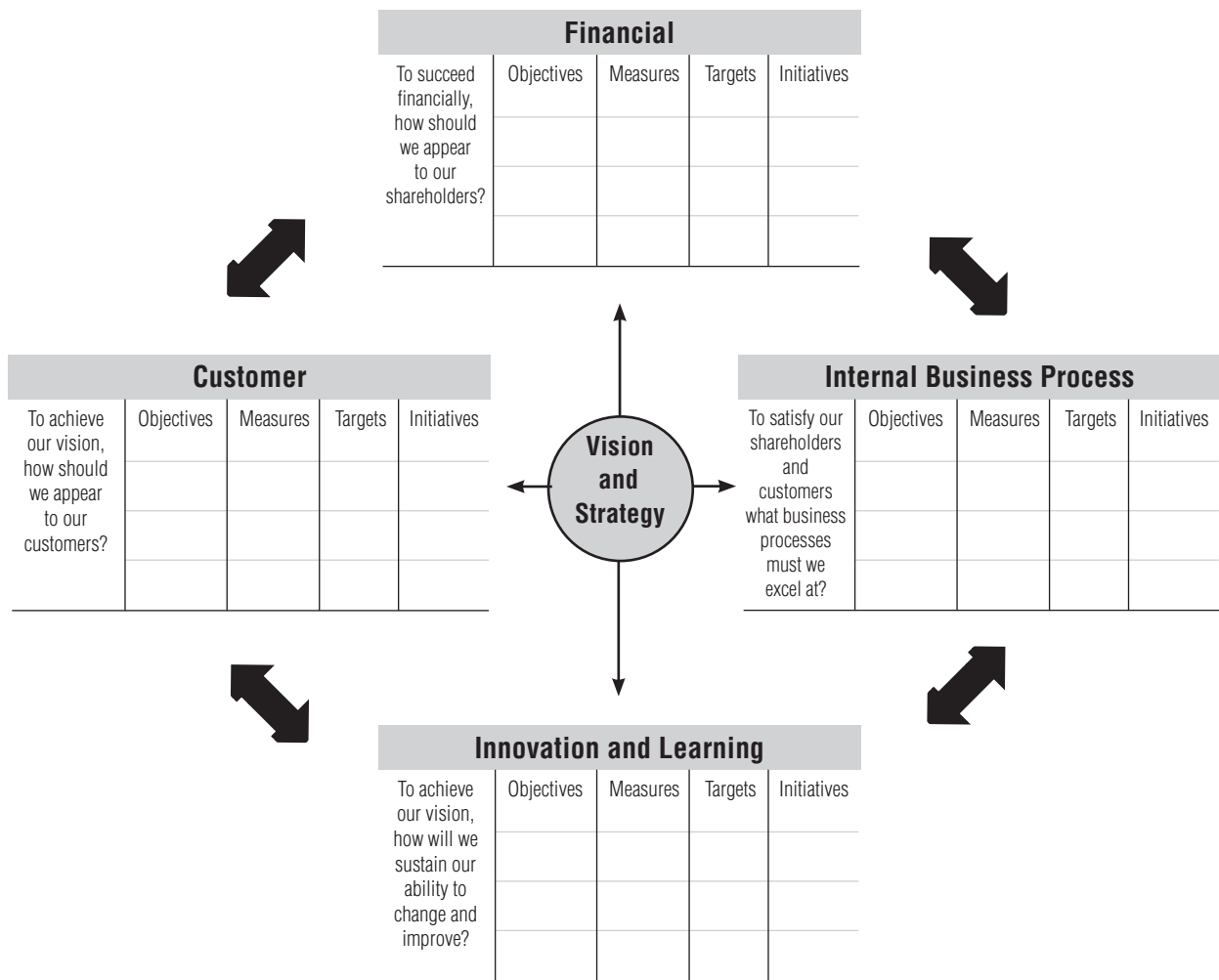
Source: adapted from Kaplan & Norton 2001

Traditional financial measures are enhanced by three additional perspectives on organisational performance:

- client satisfaction – how do we look to our clients?
- internal business processes – what internal processes must we excel at?
- innovation and learning – can we continue to learn and grow? (MAB 1997a).

Can you detect a subtle shift here from the deterministic control perspective of traditional strategic management to a more free-flowing emphasis on learning, innovation and change?

Figure 1.10 The BSC



Source: MAB 1997a:51.

With the arrival of the BSC, there has been a significant shift away from measuring *everything*. The BSC tool encourages managers to decide which few measures will be addressed. It also encourages the inclusion of 'soft' qualitative indicators from the McKinsey 7-S model.

The main points for implementing a BSC approach are: there must be vertical coordination or line of sight *and* horizontal coordination or collaboration. Strategy-focused organisations break through the barrier of separate sections or departments and break down the 'silo mentality'. Formal reporting structures are replaced with strategic themes and priorities and are communicated and coordinated across the entire organisation (Kaplan & Norton 2001).

Managers who, where appropriate, continually research and embrace new and innovative management practices ensure that they have the capabilities necessary to meet current and future business demands. This principle taps into ideas about the learning organisation and lifelong learning, which are discussed in a later topic.

Balanced Scorecards are used in about one third of state and federal government departments in Australia. The measures used are mainly in the areas of quantity of output, cost efficiency, and quality. Measures used are to satisfy legislative requirements and the main recipients of BSC reports in Australia are various

jurisdictions' treasury departments (Hoque & Adams 2008). These results suggest that in fact the BSC as currently used in Australian government organisations is not all that 'balanced' but instead focuses on a narrow range of performance measures aimed mainly at Treasury. In this regard Australian public organisations may have some way to go to become more innovative and flexible in their strategy.

1.5 Further Critical Analysis

Many strategic planning models and exercises are too complicated, too confusing, too sterile, too boring, too inflexible and too disconnected from the dynamics of the 'real world'. There is too much emphasis on developing strategy as distinct from strategic thinking. Strategic planning should not be allowed to become an annual ritual but should instead be a conscious stream of discussion throughout the year.

As one public sector manager with many year's experience in the Northern Territory witnessed:

Traditional strategic planning, in my experience, was conducted by the senior executives who locked themselves away for two days in a 'love in' as the staff would call it, then a strategic planner would slave away in isolation for a couple of months to produce a corporate plan that was promulgated throughout the organisation, quickly forgotten and studied only for promotional exams.

Strategic planning should increase organisational learning. It clarifies future direction and helps set priorities for action by identifying the really crucial issues and challenges facing the organisation. However, this may not always be the case in practice.



Activity 1.8 – Strategic planning in your workplace

What is your reaction to the above critique? Do you think that strategic planning models you have been exposed to are too confusing or too disconnected from the 'real world'? Is strategic planning in your business unit or organisation 'just a thing that has to be done each year' or is it an ongoing process of 'monitoring, adapting and reflecting'?

Mintzberg said around fifteen years ago that strategic planning had 'fallen from its pedestal' (1994:107). One reason was that it is too constrained, programmed and structured and clouds strategic thinking. The latter is intuitive and creative and can't be confined to a yearly planning schedule or a particular document format.

Reports from numerous previous PSM Program participants strongly suggest that most public sector strategic planning falls into the traps identified by Mintzberg and is anything but creative or intuitive.

In public organisations using centralised planning approaches, resources may be allocated by fixed formulae, which leave little room for local variation; and such

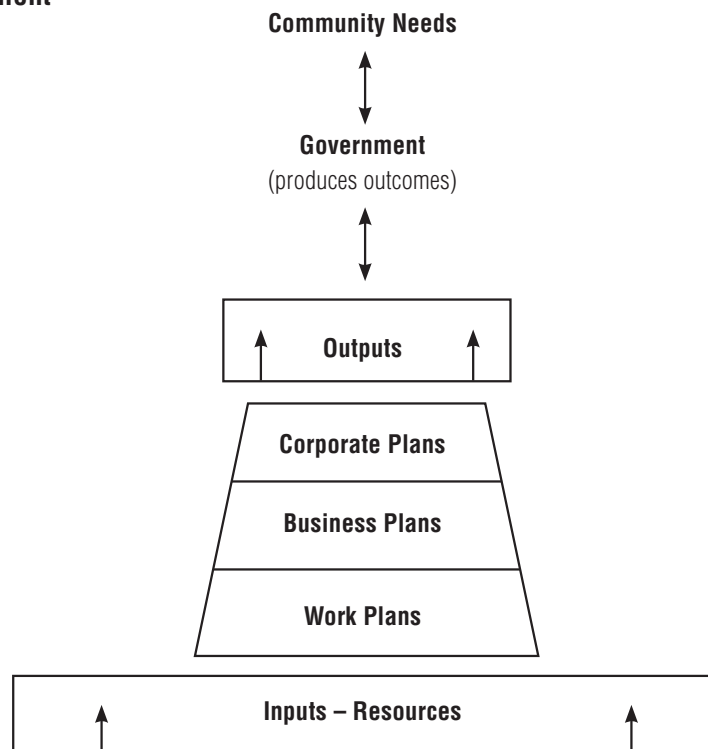
top-down planning approaches don't account for significant diversity between local units and are not well equipped to cope with rapid change (Johnson, Scholes & Whittington 2008).

1.6 From Strategy to Action to Operations

Strategy into action is about 'ensuring strategies are working in practice' (Johnson, Scholes & Whittington 2006:19). It involves structuring the organisation to ensure successful execution, enabling outcomes through appropriate use of resources. Resource coordination permeates the planning and implementation phases of strategic management. How well resources are deployed – including analysis, allocation, usage and evaluation – will affect the final outcome of strategies, policy, programs and projects.

Resource management is an integral aspect of operational management. Consider Figure 1.11. Note how resources are indicated as inputs to a system designed to put strategic plans into practice at the operational level. Resources have a significant relationship to achieving organisational strategies and outputs. Also note the importance of a two-way relationship between the community and government, and government (as owner) and agencies of the public sector.

Figure 1.11 Strategic management, operational management and resource management



Source: Thorburn 2002, reprinted with permission.

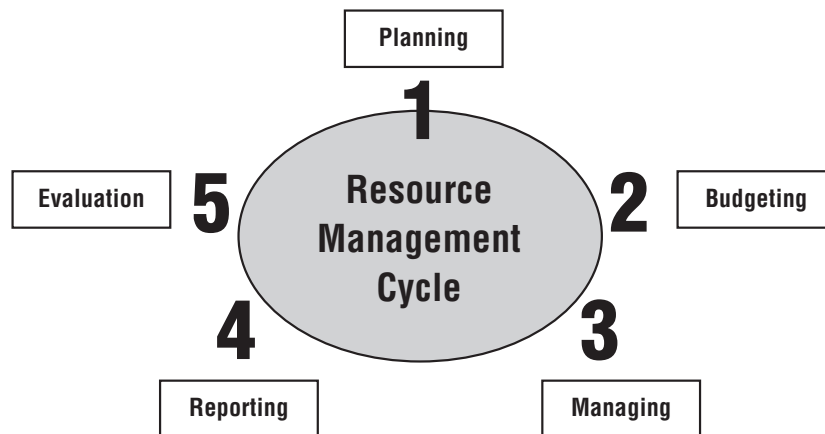
Threshold resources are those that everyone in the same operation or industry must have, whereas unique resources are those that 'critically underpin competitive

advantage' and which other organisations do not have (Johnson, Scholes & Whittington 2006:121). The public sector has many unique resources and these should be identified as part of the strategic planning process and incorporated into the operationalisation and action planning activities underpinning it.

1.6.1 Resource Management Cycle

Operational management represents the practical efforts of managers to utilise a range of resources to deliver results in an overall strategic management approach. This practical implementation can be conceptualised using a resource management cycle as shown in Figure 1.12. The cycle can and should be applied to all forms of resources. For example, we will later examine human resource planning (HRP), which is a key function in human resource management but nonetheless relies on this basic conceptual cycle. Financial management is another area which relies on a similar cycle. The cycle is generic and underpins thinking in subsequent topics on knowledge management, financial management and human resource management.

Figure 1.12 The resource management cycle



As shown in the figure above, the resource management cycle has five main steps: planning, budgeting, managing, reporting and evaluation.



Activity 1.9 – Introducing the Grampians Water case

The point of this activity is to reinforce your knowledge of strategic management and look at how it applies in the public sector context. For some participants in the PSM Program the material in this unit will already be familiar, for others it might be new. The point of this activity is to challenge you to put the material into the public sector context and take the analysis to the next level.

Required Reading 1.2 Pyman, A, Mathieson, I, Craig, A & Doherty, K 2004, *Water industry reform – stopping the leaking tap?* Thomson Learning, Melbourne.

General introduction to the case

This case is about water industry reform at Grampians Water in Victoria. It captures many elements of managing down including strategic management (*Topic One*), organisation structure and culture (*Topic Two*), strategic HRM (*Topic Five*) and change management (*Topic Nine*). The fact that it is

about water industry reform is not the main point, although given how the Murray-Darling System is grabbing headlines lately it is a small cameo of a larger more complex issue. The case could be about many aspects of public management. It illustrates many common themes, issues and concepts from managing down, which apply across industries and professions. It gives you the opportunity to apply material from the unit. The challenge for you will be to unravel the case and identify the *issues* rather than the details. The case is presented largely in historical order rather than in the order of the topics in this unit. The rationale is that 'real life' problems and issues do not present themselves neatly packaged in a logical, cognitive framework, whereas topics in this unit are intended to progress in an orderly fashion. Issues and influences may be quite obscure. Material in the case may be relevant to or cut across a number of the topics. The aim of the case activity is to assist you to 'make it work' from a range of perspectives and a variety of topics in a case study that is drawn from the practice of public sector management. The case is used across the topics in PSM Program Unit Four in the following ways:

- In some instances material from the case is reproduced in a particular topic to highlight or illustrate certain theoretical concepts.
- In other places, questions are set about the case, again with the intent of illustrating or applying certain concepts or raising certain issues.

Suggestions for participants:

- First read the case right through to get the overall story and the big picture.
- Then return to the case as directed in the relevant topic to do the activities and answer the questions.
- Where the case is discussed to illustrate a point in a topic, you may need to return to the whole case to re-familiarise yourself with the details and context of the particular point being made.
- There are several stages in the case as it develops over time – to answer questions you may need to distinguish between stages, or answer the question differently at each stage.

Strategic management at Grampians Water

1. It is sometimes assumed that strategic management isn't as relevant to the public sector because agencies are not competing with others to make a profit, whereas in the private sector this ability to compete on strategic grounds is crucial. However, strategy in the public sector is about creating public value, or best value. What does the case say about competition and what implications does this have for Grampians Water strategic management? (see p. 548). How does value come into it?
2. Strategic management involves analysing the external environment. What elements in the environment does Grampians Water have to address in its strategy? Identify specific elements mentioned in the case, and the role these have (see pp. 549; 554 and possibly others). Use either the OT (external) part of SWOT or the full PESTEL analysis.
3. What strategy technique(s) does Grampians Water use, with what effect?
4. What signs if any are there that Grampians Water strategic management is responsive to changes in the internal or external environment? Evaluate the degree of responsiveness and whether or not it is sufficient.
5. The accepted wisdom of strategic management is that strategy is essential to develop a line of sight between the highest goals or mission of the organisation and the actions and commitment of the lowest level employees. What evidence (if any) is there in the case that Grampians Water strategic management and planning was effective in 'getting employees on board'?

1.7 Summary

Every public manager has a role in creating and implementing strategy. Strategy relates to the art of creating public value. The common denominator in strategic management is the need for managers to consider their entire operation in the changing external environment, to achieve organisational outcomes.

At the broadest level, strategic management has three elements. The first is strategic analysis – the thinking part of the process, in which understanding of the strategic position of the organisation is developed. The second is strategic choice – formulating possible courses of action, evaluating them and choosing between them. The third is strategy implementation – planning how the choice of strategy can be put into effect, developing objectives and managing the resources required.

The McKinsey 7-S model is based on the premise that an organisation is not just structure but also consists of culture. This fact is recognised in the seven elements: the hard elements – strategy, structure and systems – are tangible and easy to identify; the four soft elements – shared values, skills, staff and style – are difficult to pin down and are highly determined by the people who work in the organisation. Therefore it is more difficult to plan or influence the characteristics of the soft elements.

The balanced scorecard (BSC) gained favour with organisations as there was a growing recognition that hard financial measures alone were insufficient to manage the modern organisation. These traditional performance measures were considered by managers to be short-term, focused on past performance and less relevant in today's knowledge economy. The BSC provides managers with a succinct and comprehensive view of organisational performance. It focuses on balance – between financial and operational and hard and soft data.

Translating strategy into operations demands that managers first identify and then effectively combine resources to deliver results. Operational effectiveness involves using resources to deliver results in line with organisation strategy.



Review

Having completed this topic you should now be able to:

1. Compare conceptual models of strategic management.
2. Debate whether strategic management is applicable to the public sector and discuss constraints in the sector.
3. Explain levels of strategic management and line of sight.
4. Implement techniques such as the SWOT, McKinsey 7-S model and the balanced scorecard.
5. Briefly mention critiques of traditional strategic management.
6. Describe the role of the resource management cycle in implementing strategy.



Required Reading

Reading 1.1 Stewart, J 2004, 'The meaning of strategy in the public sector', *Australian Journal of Public Administration*, vol. 63, no. 4, pp. 16–21.

Reading 1.2 Pyman, A, Mathieson, I, Craig, A & Doherty, K 2004, 'Water industry reform – stopping the leaking tap?', Thomas Learning, Melbourne.



Further Reading

Hopfl, H 2003, 'Strategic quest and the search for the primal mother', in M Lee (ed.), *HRD in a complex world*, Routledge, London, pp. 57–66.

This is a feminist critique of strategic planning.

Scholes, K & Johnson, G 2008, *Exploring Public Sector Strategy*, Prentice Hall, London.

One of the main texts in strategic management adapted to the public sector.



Topic 1: Required Reading

Stewart, J 2004, 'The meaning of strategy in the public sector', *Australian Journal of Public Administration*, vol. 63, no. 4, pp. 16–21.

SYMPOSIUM

The meaning of strategy in the public sector

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Strategic management remains under-theorised in the public sector, because the issues it raises straddle three distinct but related fields of analysis — the political, the policy-related and the managerial. At the theoretical level, making progress requires teasing out all three potential dimensions of the term. In the practical sense, there is a need to define a roomier organisational 'space' (and time frame) within which strategy can be formulated.

The article argues for a more ambitious conceptualisation of the place of strategic thinking in the public sector, one that combines the agency's need to sustain its position in its bureaucratic and political environment, with the 'strategic conversation' that is needed to link the political and the bureaucratic executives.

While the rationale for public sector change — called for convenience New Public Management (NPM) — promotes, to some extent, the idea of the strategic, it does so from a managerialist perspective which downplays the importance of the political.

This tension is visible at two levels: first, in the theory of NPM and, second, in the practical difficulties agencies experience, particularly in Westminster-based systems, in engaging fully with the concept of strategic management.

After reviewing the history of strategy in the Australian public sector, and outlining and critiquing current examples of its use, I suggest that it is possible to renovate the idea of strategy by using it to bring together the administrative and policy-related sides of public management.

Strategy — private and public

The business literature is unequivocal about strategy — it is the essence of competitive success. Strategy underpins organisational survival by anticipating and dealing with, challenges from competitors. While the mainstream management literature identifies several different schools of strategic thought (see, for example, Stoner *et al.* 1994), strategic thinking, to use Mintzberg's term, remains a key ingredient of success (Mintzberg 1994).

In the public sector, the claims for the benefits of strategy are more low-key. Hughes acknowledges that there 'are more problems and constraints compared to the private sector', yet he is of the view

that public organisations 'could conceivably benefit from a strategic approach' (Hughes 2003: 136).

Bryson, writing directly from an American context, is less equivocal. Strategy is essentially self-identification, a way of harnessing organisational potential to the policy (and to some extent political) tasks at hand. Strategy-making rests on the identification of strategic 'issues' (challenges or requirements to change), that can be used to re-orient the organisation in more productive ways (Bryson 1995). Moore's highly influential work *Creating public value* views strategy as an essential tool of the activist public manager (Moore 1995).

British writers on new public management have been less forthcoming about strategy, perhaps because the British model of public sector reform has been heavily influenced by agency theory. From this perspective, bureaucratic strategy is an activity to be constrained rather than encouraged, through the use of quasi markets characterised by purchaser-provider relationships (see, for example, Ferlie *et al.* 1996). The British case studies reported in Paul Joyce's *Strategic management for the public services* (1999) are grouped around the problems of formulating and implementing strategic plans in fragmented quasi-markets in health care and community services.

The higher salience of strategic thinking in American writing relating to the public sector no doubt reflects the closer identification between the political and the managerial in the American model. 'Strategy' as defined and applied by Mark

Moore (and to a lesser extent, Bryson) covers both the political positioning of the agency in relation to stakeholders, as well as the management of internal relations (Moore 1995). This broader conceptualisation aligns public sector strategy much more clearly with its private sector counterpart.

Strategy in Westminster systems

If my characterisation of the American perspective is accurate, the meaning and application of strategy in Westminster-based public sectors must be seen as problematic. Despite the changes wrought in Australia, New Zealand and the UK since the mid-1980s, the formal normative model remains highly traditional. The 'space' for public management is defined and delimited by the political mandates applied by Ministers, and the processes and delegations prescribed by law.

The reporting and accountability processes of new public management in Westminster systems tie agencies closely to agreed performance targets, leaving little room for 'strategy', other than as a change management tool. Managers are expected to come up with better, even innovative ways, of achieving the agreed results. But in general, they are not able to employ strategy in Bryson's sense of 'a pattern of purposes, policies, programs, actions, decisions, or resource allocations that define what an organization is, what it does, and why it does it' (Bryson 1988:163).

While an Australian departmental secretary or CEO of a statutory body obviously wishes to run his or her organisation in ways that secure its future, the scope for undertaking the kind of self-definition described by Bryson is constrained by the processes, procedures and routines of Ministerial and Cabinet government (Davis 1995), and more generally, by the conventions of Westminster-based Ministerial responsibility, which allow only a very restricted public role to senior officials.

Strategic planning in the Australian public sector

If strategic management refers to the processes that evoke and implement strategy in an organisation, public agencies in Westminster systems are able to engage in it only fitfully. At the same time, the term 'strategic' is used (indeed, over-

used) as a way of signalling to the outside world that the agency has a broad and purposeful grasp of its environment.

Strategic plans were first required of departments in many states, and in the federal jurisdiction, from the 1980s. These early documents reflected a commitment to 'top-down' strategic planning, and were fairly basic, and formulaic (Considine 1990; Johnstone 1998). Since that time, with the advent of outputs/outcomes budgeting and reporting, and a more thorough-going emphasis on business-related thinking, the strategic plan has morphed into a corporate planning process, usually with a 2-3 year outlook.

In contrast to the private sector, where true business strategies are not put out for public consumption, public agencies wear their strategic badges proudly, as a way of publicly authenticating their sense of purpose and direction.

These publicly-enunciated strategies perform two main roles:

1. they give the agency an identity based on its functions; and
2. they signal managerial priorities to clients and other stakeholders.

'Who we are and what we do'

Agencies with clearly articulated functions (for example, making, collecting or transferring payments) use strategic statements as a way of describing what they are trying to achieve through these activities. The Health Insurance Commission, for example, says that its Mission is to 'improve health outcomes through payments and information'. The Child Support Agency gives as its objective 'that all Australian parents meet their child support responsibilities'.

Departments of state, because their activities are often more diverse and less direct, find it more difficult to summarise what they are aiming to achieve. Family and Community Services says that its aim is to achieve 'a fairer and more cohesive society'. The Department of Industry, Tourism and Resources wants to achieve 'increased prosperity for all Australians through internationally competitive and sustainable business'.

These statements might be seen as too broad and, possibly anodyne, to constitute an agenda for action. However, at their best, they do state what the agency is about in a way that is a-

political, while still giving some sense of the values that the agency's operations represent.

Signalling priorities

Because agency mission statements are generally broad and uplifting, they do not in themselves provide a clear path to the goals or objectives the agency might set itself. Reporting requirements mean that agencies classify their programs against the outcomes they are designed to achieve, with performance indicators and targets used to measure progress.

A tour of the corporate plans of federal agencies suggests that, where the agency has identifiable customers or clients, the idea of customer/client service has proved most useful in generating clear performance indicators. Meeting customers' needs provides useful guidance for a range of decisions (for example, in improving information-processing so as to minimise waiting times).

For some agencies, a strategic planning process has been important in promoting dialogue between management and staff, focussing attention on the importance of clients and customers, and providing a strong context for change (Stewart and Kringas 2003). But strategic management, in the sense of linked decision-making systems directed towards longer-term goals, is a rarity.

The limitations of strategy

The extent to which strategic frameworks actually inform management activity in meaningful ways (as distinct from 'framing' it for public consumption) remains unclear. Writing in 1990, Considine pointed to a continuing disjunction between budgetary and policy-making processes, with only new proposals receiving concerted management attention. More than a decade later, there is still a lack of information about how agencies actually 'do' budgeting under the new regime, and the extent to which agencies use outputs-based performance information to improve management decision-making remains unclear. Carlin and Guthrie suggest that in practice, outputs frameworks have proved too unstable to constitute a reliable basis for decision-making, as agencies have made repeated revisions to them, in order to find the right level of specificity (Carlin and Guthrie 2003).

Outputs create a different set of problems when they are considered from a reporting point of view. Agencies are not reporting on their

progress in achieving key political goals, but rather their progress against deliberately de-politicised performance targets. Traditionalists might argue that this is precisely what a clear separation of the policy/political from the administrative dimension implies, and that it makes little sense to hold public servants accountable for the real effectiveness of their work, when it is policy design, rather than administrative expertise, that bears most heavily on this type of outcome.

On the other hand, if agencies are reporting their contribution to the 'results' of policy, they need to be clear about the nature of that contribution. Users of departmental strategic information find that outputs/outcomes reporting does not tell them what is actually going on within the agency — the inter-relationships among the agency's units, its programs, and the way they use resources, are missing.

Political executives (such as portfolio Ministers and Cabinet) find little sense of recognisable activity in these figures, and indeed the Commonwealth Department of Finance has recently been required, in the budget context, to supplement agencies' outputs-based budget statements with a more practically-focused commentary. Parliamentary users report similar difficulties (Senate Finance and Public Administration Legislation Committee 2000, 27).

Part of the problem lies in the stylised form portfolio budget statements must assume for reporting purposes. But partly, too, it is a consequence of a blurring, within the theory of public management, of the true strategic dimension in what agencies do.

NPM and the political

Potentially, the idea of strategy can productively politicise the managerial, and managerialise the political. But there are no easy solutions to the conceptual and practical problems involved. As I pointed out in 1995, they go to the heart of the oldest and most vexed question in public administration — the relationship between policy and administration (Stewart 1995).

Administrative convention has it that policy-oriented departments give Ministers 'advice' that they can use or ignore as they wish. Similarly, agencies delivering products or services, so the theory goes, are providers to the Minister's purchaser.

Both roles are inherently political, the first obviously so, the second in more subtle ways.

Consider the situation of an agency performing what are usually called 'service delivery' functions. In reality, the agency is not, or is not only, delivering a service, it is also establishing a framework of obligation in relation to its clients, in which both sides have responsibilities and duties.

When things go wrong, as they frequently do when agencies must deliver a tangible service, it is because this balance goes awry. Agencies that fail, in whole or in part, to get this balance right, need a new strategy, a new way of conceptualising what they do and how they do it.

They do not need new legislation, but they may need new policy. Under standard Westminster systems, they will not get this new policy unless and until they convince the Minister. The agency must market its vision to the Minister, but how is it to do this unless it can interact more freely with its stakeholders, not as agents of the Minister, but openly, as a strategic player in its own right? Conversely, if the agency is failing, how are stakeholders to precipitate reform if the agency seals itself off from outside influence?

Without an acknowledged arena for policy strategy, agencies have little alternative but to resort to tactics of control — leading, at the extreme, to a bureaucracy that survives by keeping its Minister in the dark, and its clients under its thumb. For a time, all may appear to be well, but inevitably problems bubble to the surface and can be dealt with, in the more severe cases, only by politically embarrassing inquiries and Royal Commissions.

More broadly, how can departmental managers develop and use the energy in their agencies, when their engagement with the political and policy dimensions, the driving force of what they do, is limited by convention to the narrow channel of prescribed ministerial communication? How, in turn, can Ministers engage usefully with their departments, if (by convention) their departments have no policy-making role at all other than the generation of policy advice? Perhaps it is time, in the interests of both sides of the political-bureaucratic divide, for conventions that must be ignored if the system is to work properly, to be discarded and replaced.

The scope for strategic management in the public sector

I suggest that the concept of strategic management can generate genuine traction in the public sector if it is used as a means of reconstructing the

political-bureaucratic relationship in ways which reflect the realities of developments in public management, while acknowledging the distinctive role and potential of public agencies. Three kinds of strategic thinking are significant:

- policy strategy
- organisational strategy; and
- managerial strategy

Figure 1 suggests how these three kinds of strategy inter-relate, both within the agency, and as key factors in the dialogue between agency and minister.

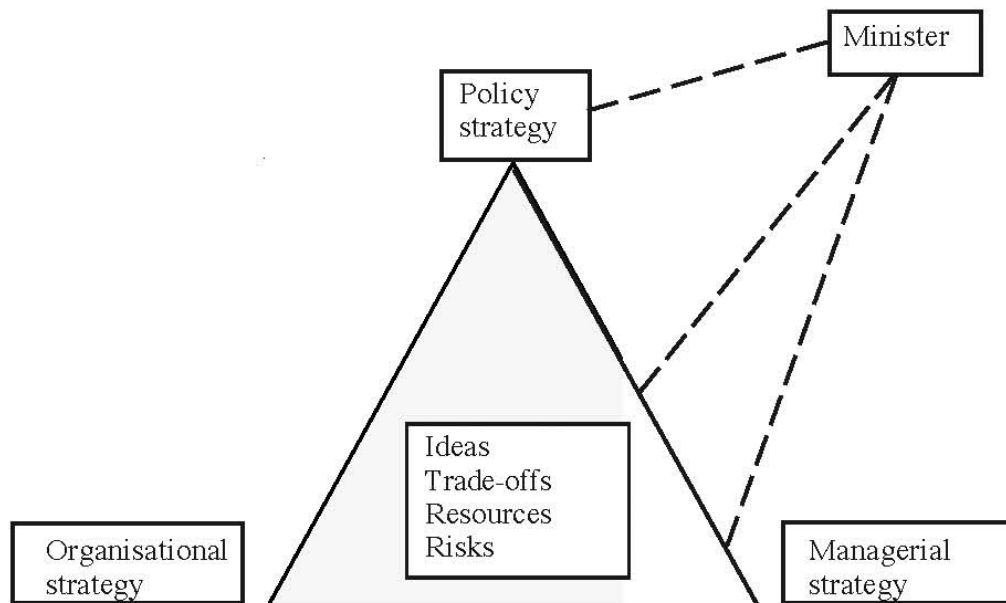
Policy strategy

Policy strategy is what government wants to change — its agenda, and the ways in which the agency will move to help it achieve this agenda. There is no clear analogue to policy strategy in the private sector, because companies sell goods and services, they do not change authoritative relations in the societies in which they work.

Policy strategy is not the same as the 'outcomes' agencies put forward in their portfolio budget statements, because these are 'backcast' from legislated mandates, and are too broad and bland to be used for true strategic purposes. Rather, policy strategy refers to the ongoing relationships Ministers and agencies use in developing and deploying policy. It is both an opportunity for departments, and a discipline for Ministers.

The empirical evidence we have suggests that in practice, policy strategy is left to Ministerial advisers, whose relations with departments are notoriously ad hoc, and often determined by short-term, often media-driven priorities. Departments and agencies compete with each other and with external stakeholders for Ministerial attention in a fluid, rapidly-changing environment that leaves little room for considered dialogue engaging longer-term issues or dealing with the realities of implementation.

If agencies were to develop explicit policy strategies that acknowledge that they are 'players' in their own right in this arena, while bringing more of their role and intentions into the open, genuine political-bureaucratic partnerships that avoid the traps of endemic secrecy, unstable conventions, and the ever-present taint of politicisation might become a more prominent feature of Australian political landscapes.



**Figure 1 Strategic management
Reconfiguring the agency–Minister relationship**

Organisational strategy

Organisational strategy is more akin to strategy in the private sector. It is what the organisation does to meet the needs and expectations of its stakeholders, what it does to underpin its future in a world in which competitive pressures are never far away.

Organisational strategy must derive from policy strategy, because this is an obvious way of meeting ministerial expectations, but it also takes in the values-based, cultural and historical qualities of the agency itself. As Figure 1 suggests, this area of strategy also informs the relationship with Ministers, not because Ministers become involved directly in the way departments are run, but because Ministers have a legitimate interest in the corporate health and sustainability of the agencies that operate in their name.

This type of strategy draws managers' attention to choices that otherwise are made implicitly. For example, the values implied by the performance indicators deployed by agencies often involve trade-offs, or even conflicts. How much time and money to spend on compliance, and how much on service delivery? Balanced score-cards can blur these choices as much as they illuminate them.

Human resources, often neglected in public services, become a more obviously significant

area when there is a clearer organisational strategy of this kind, because employees are the key repositories of the agency's values-based, cultural and historical qualities. Relations with clients, too, move from a concern with 'customer service' to a more truly stakeholder-oriented philosophy.

Managerial strategy

The technical activities of budget-making and reporting, the vast array of operational decision-making and the deployment of resources for achieving agreed objectives are activities that are usually held to be unequivocally 'managerial' in the sense that they appear to be removed from the strategic realms already discussed.

Here, too, however, values-based choices are being made, and there is merit in making them as explicit as possible. The pursuit of greater efficiency is unarguably important, but it cannot be the sole *raison d'être* of management in a public organisation. Managing for other, less measurable values, can take place only when the political dimensions of strategy are acknowledged. Once again, the informational requirements for managing are easier to reconcile with those for reporting and accountability, if they are situated within a framework that is big enough to encompass both.

Conclusion

While 'steering' (rather than 'rowing') is a strong theme within new public management, the activity of steering is itself intrinsically political, a point strongly made both by Osborne and Gaebler, and in the strategic context by Bryson, Moore and Lynn. It is difficult to conceptualise strategic rowing.

Unfortunately, when applied to Westminster systems, New Public Management is unclear about when (or even whether) public agencies are to be involved in steering. Hughes suggests that strategic planning and management do not replace political decision-making, but improve on it, by ensuring that political issues are 'translated' into the management context in ways that benefit the organisation.

However, I have argued that in practice, the political/administrative divide, and the role of Ministerial advisers, frustrates this strategic conversation, leaving agencies with 'play-safe' goals and practices. The logic of NPM is to enhance accountability to the Minister, using performance measurement as a device for over-coming information asymmetry. However, this same degree of control makes it difficult for public servants to have sufficient autonomy, or indeed incentive, to 'steer' their agency.

I have suggested that one way out of these difficulties is to create a strategic 'space' within which agencies can more openly pursue their relationships with stakeholders (including ministers), as part of an emerging pattern of governance that uses the full potential of strategic thinking.

From an agency's point of view, strategic thinking should be about understanding and managing risk, not simply in the sense of identifying and managing operating risks, but also with a view to reconciling the constraints of a necessarily bureaucratic form, with the needs of productive policy-making in an increasingly fluid environment. As Desveaux puts it, 'the problem for public bureaucracy concerns the extent to which it can reduce uncertainties about its own capacities and its operating environment' (Desveaux 1995).

If your future is assured, you don't need strategy, and neither do you need it when you are doomed. But the rest of the time (which is almost all the time), strategy seems a good investment, provided it is done openly, and within acknowledged structures of accountability.

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Topic 1: Required Reading

Pyman, A, Mathieson, I, Craig, A & Doherty, K 2004, 'Water industry reform – stopping the leaking tap?', Thomson Learning, Melbourne.



By **Amanda Pyman, Ivan Mathieson, Alec Craig and Kathleen Doherty**

Introduction

In 1995, the Victorian State Government, under statute, amalgamated 21 water and waste water authorities in the Wimmera-Mallee region of Victoria to form Grampians Water. Acting independently of the government, most of the original authorities had been run by boards of locally elected volunteers. In some instances this had occurred for up to 80 years. Therefore, the amalgamation in 1995 was a dramatic and abrupt change to what the community were accustomed. As the sole shareholder, the government appointed eight directors to the board to run the newly formed entity on its behalf.

More recently, in 1997, further changes at Grampians Water have resulted in the negotiation of an enterprise bargaining agreement with staff, and the development of a memorandum of understanding with the government. The memorandum of understanding covers the future direction of capital works within the region in which Grampians Water operates. The government is contributing \$26 million towards these works.

The characteristics of Grampians Water

Grampians Water operates as a public sector organisation within the Victorian Water Industry, providing water and waste water services to the community. The authority operates in a wide and diverse area, serving a population of approximately 60 000 people, providing water to 67 towns and waste water services to 21 towns. The area serviced by Grampians Water is geographically the largest region in the state, covering almost the entire Wimmera Mallee region. The three main sources of water supply are from the Wimmera Mallee Water's open channel network, water from separate systems in the Grampians and at Mt Cole, and groundwater.

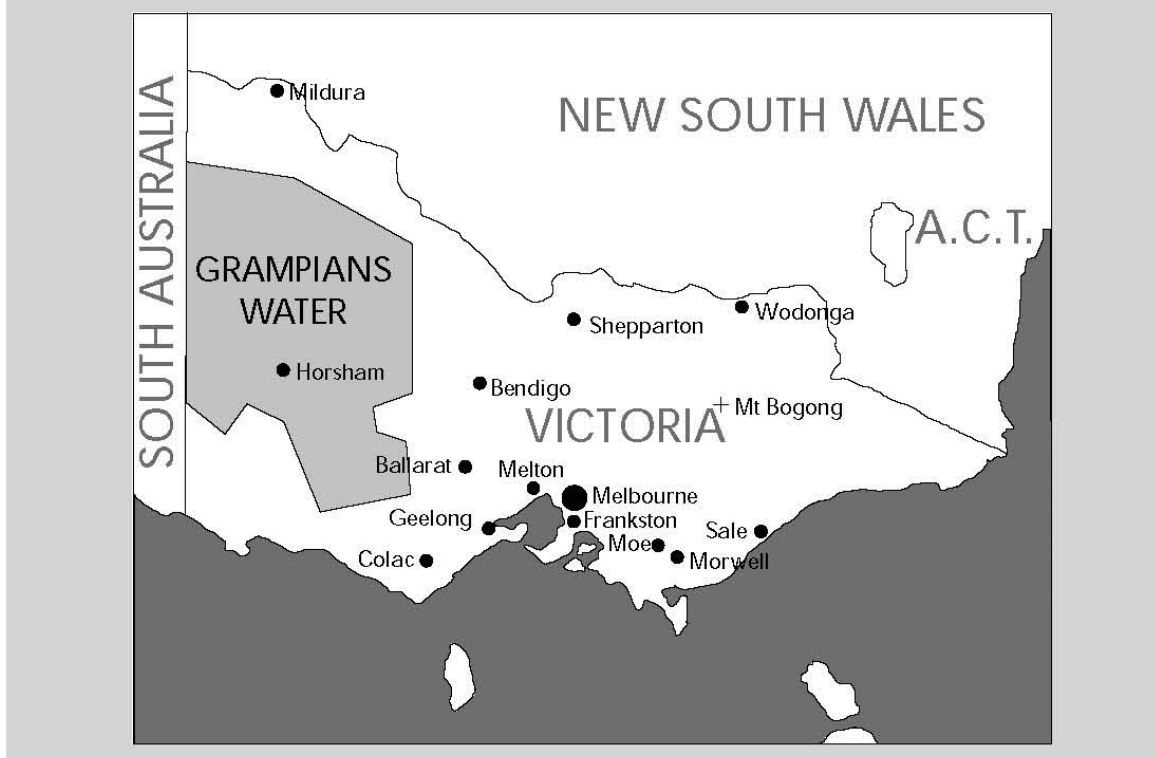
Grampians Water is the only supplier of urban services in this region at present, and so there is currently no competition. However, there is a need for Grampians Water to be a leader in this industry in order to avoid further government intervention. Such interventions may result in further amalgamations with other regional authorities in the State, or privatisation, leading to fierce competition.

The authority currently operates from a corporate office in Horsham, district offices in Ararat and Stawell and three operational depots. The corporate office in Horsham is generally central to all parts of the region, being at the intersection of major north-south and east-west highways that run through the area.

The chief executive officer, Lachlan Campbell, provides the central focus for the management of the board. The executive management team includes the CEO, secretary and representatives from four separate departments; Customer Services, Service Delivery, Business Performance and Major Works. This team provides further management expertise regarding the authority's operations. Figure F.2 provides specific details.

The Customer Services Department aims to ensure that the authority provides high levels of customer service to all urban communities, and that the needs of customers are met in the most efficient and effective manner. This department has a further role in that it provides legal, administrative and other corporate services to Grampians Water.

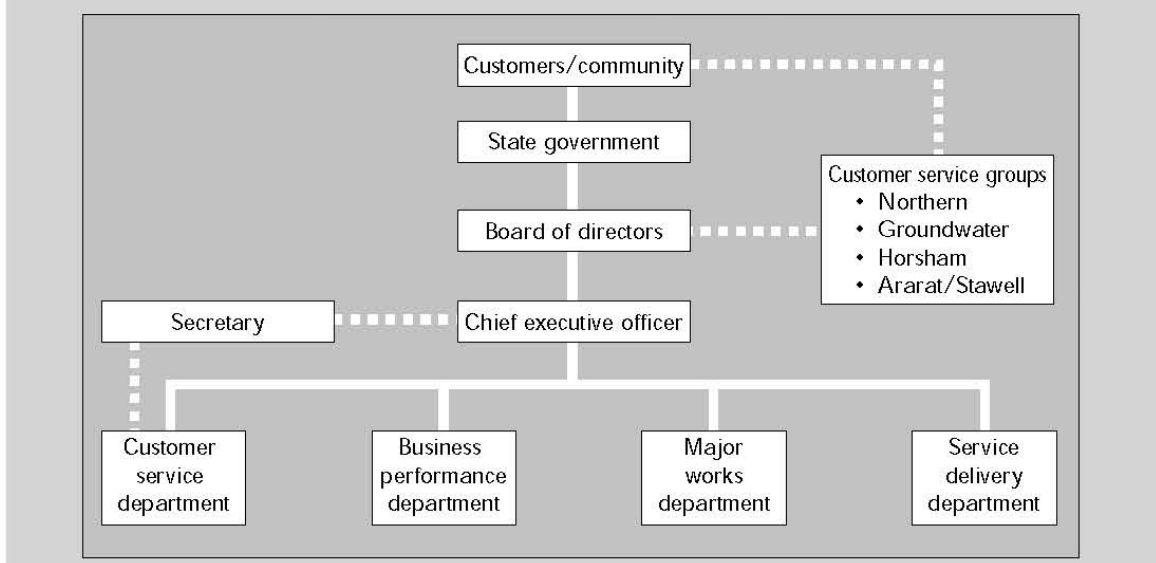
FIGURE F.1 The area serviced by Grampians Water



The Service Delivery Department seeks to ensure that the authority delivers quality service to its customers, including adequate bulk water supplies, adequate water pressure, service reliability and rapid response to service emergencies.

The Business Performance Department’s goals are to ensure that the authority meets customers’ operational needs, and the financial demands of its shareholder. As such, it aims to implement prudent financial strategies focused on service and product quality. Further, it is required to provide an agreed per assessment return to the shareholder, while also meeting the authority’s future infrastructure funding requirements.

FIGURE F.2 Organisational chart of Grampians Water



The Major Works Department was established to be responsible for capital works planning and construction, as detailed in the memorandum of understanding with the Victorian State Government.

Grampians Water has three additional committees that include board, management and staff members. These committees assist in the authority's operations in the following areas:

- finance and audit
- occupational health and safety
- efficiency and performance
- the review and implementation of policy matters.

In the 1997/98 *Annual Report*, Grampians Water stated that its mission is that:

The Grampians Region Water Authority will be the best supplier of water and waste water services to urban cities and small urban communities. The Authority will develop a responsive and customer-focused culture, committed to delivering quality products, improving the environment and ensuring it has the ability to fund its infrastructure development through the implementation of prudent and profitable financial strategies.

To achieve this, Grampians Water has a vision statement, which addresses many areas with regard to future development. Elements of the statement as listed in the 1997/98 *Annual Report* include:

- that after investigation, and where appropriate, to ensure provision of a supply of water safe in quality, adequate in quantity and effectively distributed to the authority's customers
- to ensure the provision of waste water treatment facilities in a manner that safeguards the health of the authority's customers and the environment
- to identify community and government requirements, and address their needs with respect to water and waste water services
- to create and observe high safety standards
- to be a good corporate citizen and gain the respect of customers through empathy and good customer service
- to encourage all staff to continue to develop skills by further training and education.

Grampians Water's 1997/98 *Annual Report* states that it is committed to a core strategy 'to be the best provider of water and waste water services to urban cities and small urban communities'. It is suggested that the critical success factors pertinent to achieving this core strategy include:

- recruiting appropriately qualified staff to meet operational needs
- negotiating and securing the essential facilities required for operation
- effectively lobbying the state government in order to achieve a revenue positive outcome to meet community service obligations
- rectifying wage and condition discrepancies that exist between staff undertaking similar tasks, employed under differing awards
- identifying and obtaining access to additional alternative supplies of raw water
- developing drought response plans for each district
- identifying innovative water processing technologies and waste water treatment systems suitable for use in small urban communities
- developing and monitoring comprehensive performance indicators relating to performance in all areas
- ensuring that a high level of community support is retained via delivery improvements in a product quality that meets the expectations of consumers.

Apart from the board and staff committees, Grampians Water has four customer service groups, each of which represents a particular region in the area that the authority services. It is generally believed that these groups are integral to gaining acceptance from consumers towards the operations of Grampians Water. The official role of these groups is to act in an advisory capacity to the board, providing information to Grampians Water as to whether or not it is meeting the overall performance indicators from the customers' perspective. Such areas include:

TABLE F.1 Grampians Water: Financial results—balance sheet

	1997/98	1996/97
Current assets	\$31 683	\$19 637
Non-current assets	\$138 838	\$132 726
Total assets	\$170 521	\$152 363
Current liabilities	\$2154	\$7553
Non-current liabilities	\$932	\$8517
Equity	\$167 435	\$136 293
Total liabilities and equity	\$170 521	\$152 363

- highlighting concerns that the customers may have about any aspect of the business of Grampians Water
- providing feedback to the directors on customer expectations and the perceived performance levels in areas such as service, environmental quality, and handling customer complaints
- offering suggestions about how Grampians Water could best meet the needs and expectations of the community
- assisting in the review of major capital works programmes for the area
- discussing and advising from a customer’s viewpoint, the likely implications of Grampians Water policies
- acting as a link between Grampians Water and its customers.

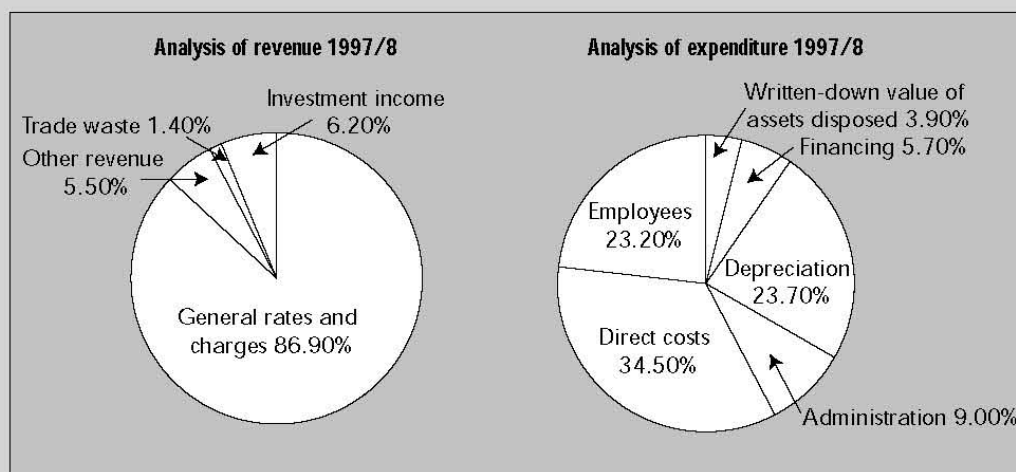
Grampians Water’s annual business plans establish the monetary goals of the authority, quantifying the financial costs of any change processes. Figure F.3 and Table F.1 are contained in the 1997/98 *Annual Report*. They indicate Grampians Water’s statement of assets and liabilities, main revenue-raising components and major areas of expenditure.

The major change processes and reasons

Stage 1—the amalgamation of 21 water and waste water authorities

Beginning in 1994, this change was driven by external pressure from the Victorian State Government. The government, represented by staff from the Department of Water Resources, met with 21 individual authorities to outline the government’s objectives.

FIGURE F.3 Analysis of revenue and expenditure 1997/98



Subsequently, the government decided to establish Grampians Water and appointed a board of directors. The government selected these directors on the basis of the perceived needs of the organisation. The government changes were based on the need to:

- introduce competition into the industry with the aim of reducing consumer costs
- redirect the water industry focus from public service provider to customer service
- allow authorities to concentrate on their core business of distributing water and treating waste water, as for many this had previously been a role undertaken by local government
- achieve economies of scale in the industry
- increase the ability of authorities to undertake necessary capital works to improve service quality. In a number of areas Grampians Water had inherited ageing infrastructure, which required major capital works to ensure that water quality is guaranteed and effluent discharge environmentally managed (see also stage 3).
- improve the ability of authorities to attract and retain skilled people within the industry
- reduce the state's indebtedness.

This change should be considered in the light of the major changes that were occurring in the Victorian public sector at the time. Many public sector authorities were being corporatised to compete with private enterprise, or in preparation for privatisation. As such, most changes were commercially driven, with the objective of reducing staffing levels in the Public Service, without compromising the level of services provided. The Victorian government considered the services provided by many of the original water and waste water authorities in the state as less than satisfactory, requiring immediate and drastic changes to meet government objectives.

Given the Victorian government's approach, Grampians Water faced a monumental task in establishing their credibility with staff and customers. Yesterday they had been part of a local water authority; today they were part of a regional water authority, Grampians Water. The change ran counter to the internal culture and stable environment of the original 21 authorities who had adopted, in the main, a public service provider attitude. After establishment, Grampians Water's external environment was relatively stable, as the government did not threaten further amalgamations. This contrasted dramatically with their internal environment. Internally, changes were constant and rapid, as the organisation attempted to change the culture from a local to a regional perspective, and from a public service provider focus to a customer focus. Comments from participants in the change process indicate that it took a long time to convince some staff that a change in culture was possible, as they resisted the need for change. By examining the new and changing environment in which they were operating, the board set out to establish Grampians Water's own identity.

To assist in establishing Grampians Water's identity, the directors had a *Director's Briefing Manual* produced by a transitional group of former authorities' elected members and staff. Further, the board was provided with general directions from the government. These directions quantified the action expected by the government. Following these directions, the directors undertook an analysis to identify Grampians Water's strengths, weaknesses, opportunities and threats. From this analysis, they produced a strategic plan outlining a mission statement, directions and goals for Grampians Water. The strategic plan provided a general motherhood statement, aimed at achieving a framework within which Grampians Water could develop, and action plans to quantify this development. These action plans included specific performance indicators, such as time lines as to when specific tasks were to be completed and quantification of what was expected. This was seen as an important first step for the organisation.

While the Board was developing the *1995 Strategic Plan*, it was planning that it should be continually reassessed and adjusted in order to meet contemporary requirements. From the evidence available, it appears that the authority is reviewing goals and objectives annually through its strategic planning process. As part of this review process, Grampians Water is re-establishing the necessary action plans to ensure that it is able to achieve its core strategy.

While these were the written objectives and plans, Grampians Water also had to contend with the underlying need to manage the change process, in order to maximise the benefits for customers, staff and its shareholder. Therefore, rather than make drastic changes, Grampians Water initially decided to establish district offices at Ararat, Birchip, Nhill, Stawell and Warracknabeal, in addition to the corporate office in Horsham. As such, those individuals transferred from former water and waste water authorities to Grampians Water remained in the location to which they were accustomed. In adopting the transitions groups' recommendation, the board's objectives appear to be aimed at:

- a drive for the acceptance of Grampians Water across the region, with the least possible disruption to previous operations
- limiting the possible alienation of staff and customers as a result of the change.

In 1995, the board identified in the strategic plan that the quality of staff was a strength. These staff were said to possess high levels of systems and operational knowledge, and were pleased to belong to Grampians Water, hence being dedicated to its success. In order to maintain this, the authority states that it is committed to the principles of merit and equity in relation to personnel practices. This includes a commitment to providing employees with education and training, taking into account potential experience and past performance to promote both organisational and personal development. While opportunities for training and education during this change process significantly increased motivation and reduced the stress levels of those employees involved, it was apparent that such opportunities were neither promoted nor offered to all members of staff. Further, observation suggests that what the board optimistically identified in its strategic plan was not necessarily the case, due to:

- a loss of people with skills and knowledge, who left as a response to the changes, partly as a result of the lack of career prospects within the organisation
- a loss of dedication and effectiveness of staff due to the stress of increased workloads and responsibilities.

This was highlighted when outdoor staff indicated that they faced an increase in the skills required, while indoor staff suggested that they were required to become more specialised as a result of the change. This suggests that while such rapid changes to work roles were necessary, they negatively affected morale.

In addition to the issues facing individuals, information gathered indicates that group problems also existed. Grampians Water's indoor and outdoor staff were two groups in fundamental conflict in this change process. This was a result of their physical location in the organisation. Outdoor staff suggested that they experienced a lack of information about the change process. Initial proposed changes were communicated to the outdoor staff by management, but a degree of distrust of the information given saw them use the more familiar grapevine. Information conveyed through the grapevine was often misconstrued, and there was a belief that secrets existed. Outdoor staff also believed that the indoor staff possessed superior knowledge and understanding of the change processes. Furthermore, the outdoor staff did not associate themselves with the new organisation, leading to an 'us vs them' mindset and a lack of trust regarding the entire change process.

Furthermore, contrasting mindsets also existed between the various towns encompassing Grampians Water, as a result of the different cultures that existed in different offices prior to and after amalgamation. This made the achievement of a single corporate culture for Grampians Water almost impossible. Facing this dilemma, Grampians Water believed that it was necessary to be proactive in their operations.

Stage 2—negotiation and introduction of the enterprise bargaining agreement

The negotiation of an enterprise bargaining agreement between Grampians Water and its work force took place during 1997. The agreement was attained through an adversarial approach, which pitted the board and management against staff and unions. The union's involvement was said to slow the process, but the enterprise bargaining agreement was signed in December 1997. The objective was to create a more responsive and flexible

workforce in relation to the needs of Grampians Water, from both cost and operational perspectives. Measurement of cost flexibility for Grampians Water occurs through meeting employee and operations budget targets.

The negotiation of the enterprise bargaining agreement meant that Grampians Water was able to introduce specific performance indicators into their operations for the first time. The performance indicators used to evaluate individuals include:

- response time to customer complaints, call-outs, letters and other enquiries
- meeting individual goals established through performance appraisals.

Performance indicators used to evaluate groups include:

- measurement of the number of complaints that are received about the group's work. An example might be the number of complaints from ratepayers about incorrect rate notices having been sent to them
- time limits set on certain tasks, such as the Rates and charges area sending rate notices out on time
- meeting the budgetary requirements of the group.

It is noted that these group and individual performance indicators combine to reflect the overall operation and public image of Grampians Water.

The enterprise bargaining agreement has also allowed for a rationalisation of hours and payment methods to provide some uniformity of conditions. In return, staff covered by the enterprise bargaining agreement received a wage increase of 4% on the signing of the agreement. Individuals may receive a further 2% wage increase after nine months, if individual performance appraisals indicate that they have achieved agreed performance indicators. At the end of the first nine months, Grampians Water and the workforce were being appraised and renegotiating performance indicators to cover a greater range of factors with the possibility of this leading to a further 2% wage increase if performance levels were met when an evaluation of the revised performance indicators was undertaken nine months later. Given that these performance indicators are now part of the evaluation process under the enterprise bargaining agreement, they provide a recognised reward system for the individual.

Results indicate that, while it was the intention that the enterprise bargaining agreement should deliver a more flexible spread of hours, this has been difficult to achieve, as former work practices are preferred. Uniformity of conditions for all employees is also still to be achieved, although it is recognised that wage and salary relativities are now more equitable.

Stage 3—negotiation of the memorandum of understanding with the Victorian government

As its sole shareholder, the Victorian government's influence on the activities of Grampians Water is significant. This limits the options available to Grampians Water when considering appropriate responses to change and how and when it should occur, especially as the government is able to make further radical change whenever it considers it to be necessary. Given this scenario, the Victorian government announced further reforms to the water industry in October 1997, as a result of concerns related to:

- the speed of progress by the water industry in improving water quality and in treating waste water
- the general cost of water and waste water services to the customer.

To attain these reforms, the Government indicated that it was willing to make a financial contribution towards the costs involved.

In the six weeks following the October 1997 announcement, Grampians Water negotiated with the government the terms to be incorporated in a memorandum of understanding. Signed in December 1997, the memorandum of understanding is a legal agreement between Grampians Water and the government, which requires Grampians Water to achieve the terms of the agreement in return for financial assistance from the government. The final terms of the memorandum of understanding require Grampians Water to:

- rewrite the 1997/98 business plan to cover the 1998/99 financial year. In doing this, Grampians Water budgeted for an 18% reduction in revenue from rates and charges until 30 June 1999.
- undertake capital works in more than 40 towns to provide water that meets World Health Organisation Drinking Water Quality guidelines. This had to be completed prior to the state government election in 2000, and was to be assessed by Grampians Water testing water samples on a quarterly basis, following the completion of capital works. Samples had to meet the guidelines, and a report of sample results had to be provided to the government as verification that compliance was occurring.
- undertake capital works to sewer four towns with populations greater than 500 that have reticulated water supplies. This work had to be completed by 2001.
- undertake capital works to ensure that all waste water treatment plants discharge effluent to standards consistent with the *State Environment Protection Policy (Waters of Victoria)* by 2001.
- undertake necessary dam improvement works on Grampians Water storage dams by 2003 to ensure compliance with safety standards, and to protect water supplies.

In return the Victorian government provided \$26 million to assist Grampians Water's capital works programme. This level of funding is far less than the estimated cost of the programme, which is \$80 million. Further, the \$26 million is to be kept in a special account by Grampians Water, who must provide details of transactions within the account to the government on a quarterly basis. The achievement of the ambitious capital works programme has seen the targets above included in the Board's revised business and strategic plans.

Further, in response to the memorandum of understanding, Grampians Water took the following actions:

- reviewing its operations to assess how best to meet the needs of customers, given the new budgetary constraints. This includes reassessing the strategic plan to make it relevant to the objectives of the memorandum of understanding by scanning the external environment and comparing Grampians Water with other water authorities in Victoria
- reviewing the staff structure in regards to organisational needs
- reviewing the business plan and capital works programme to meet memorandum of understanding requirements.

This resulted in:

- updating the strategic plan. Considered for adoption in February/March 1998 was downsizing through voluntary redundancy and having staff reapply for a lesser number of positions within Grampians Water.
- reducing the number of district offices, apart from Horsham, from five to two. This resulted in some staff relocations, predominantly affecting office staff, with the purpose of achieving economies of scale and promoting unity within the organisation.
- developing work teams to undertake various tasks throughout Grampians Water, particularly in the operations area.
- developing a business plan and capital works programme to take advantage of the latest technologies. This included telemetry, which reduces the need for operations staff to actually attend asset locations to undertake maintenance.
- holding a series of public meetings throughout the area to discuss the options available in upgrading the water and waste water infrastructure in the cities and towns identified in the memorandum of understanding.
- re-evaluating performance indicators within the enterprise bargaining agreement structure.

The memorandum of understanding provides Grampians Water with an external mechanism for evaluating its overall performance in regards to water and waste water services. In addition, the government requirement of an 18% reduction in revenue from rates and charges for the 1997/98 and 1998/99 financial years acted as an external

financial evaluation. The reduction of revenue was partly delivered through the reissue of 1997/98 rate notices and revision of 1997/98 and 1998/99 business plans.

Throughout stage 3, there was evidence of a greater level of support for change, or at least acknowledgment, from staff of the need for radical change. Although partial support and acknowledgement of change had developed, psychosocial problems continued to exist in response to the change. As a result, Grampians Water attempted to introduce several measures to deal with these problems. During the change process, it established opportunities for staff to consult with church-based counsellors. In many instances this approach proved to be effective in reducing stress and in dealing with personal issues. However, this did not act as a panacea to all interpersonal problems, and only suited the needs of some staff members. For instance, it was identified that the outdoor staff viewed the concept of counselling as unnecessary and in contrast with their personal images socially.

It was also noted that Grampians Water had recently introduced teams throughout their operations as part of this particular change process. The aim of team development is to foster co-operation among all staff. Teams comprise individuals from most levels across the organisation, with the objective of providing all staff with a particular member of management whom they can approach with questions and problems. This was a positive step towards resolving the problems that exist, but evidence suggested that the objectives of team development were not being achieved in every case. This might have been because some at management level viewed this role as being of little importance, given their heavy workloads.

What of the future?

It is generally acknowledged that change will continue as the government proceeds with reducing its public commitments. This was illustrated by the sale of other corporatised government activities, such as power generation and distribution, and the then still proposed sell-off of transport and gas assets and operations.

Many of the actions taken under the memorandum of understanding were directed towards upgrading the standard of assets to a level that provided:

- a quality level of service that meets internationally recognised health standards
- infrastructure that is state-of-the-art and therefore saleable.

The continuing corporatisation of public sector organisations, such as Grampians Water, suggested that the Victorian government might still have been considering the possible sale of the water industry to private concerns. While the then currently stated government policy did not include privatisation of the water industry, in the event of current organisations failing to meet jointly agreed goals, or even if such goals were met, it did not stop the government from scanning the market to ascertain the profitability of such a sale. If, in the future, privatisation were to eventuate, the result might have seen Grampians Water acting as a caretaker organisation in an overall government privatisation scheme.


QUESTIONS

- 1 List the problems at the individual, group and organisation levels. What were the causes of these?
- 2 How could the problem of skilled staff leaving for better opportunities have been approached? Discuss the advantages and disadvantages.
- 3 Discuss three means of dealing with stress resulting from increased workloads and responsibilities. Discuss the advantages and disadvantages.
- 4 Suggest ways of handling the different inter-group conflicts. Discuss the advantages and disadvantages.
- 5 List some advantages and disadvantages of the performance indicators used, and make suggestions for further improvements.
- 6 What should Grampians Water have done to ensure its survival when facing future pressures from the government? Discuss the advantages and disadvantages.
- 7 What macro-level OD interventions could have been used to implement the changes occurring at Grampians Water? Discuss the advantages and disadvantages.
- 8 Using the model for adaptive orientation², characterise Grampians Water's management style in each of the three stages.
- 9 How could the strategies for planned organisational change as outlined by Dunphy and Stace³, be used to describe the strategies used by Grampians Water? What strategy could have been used then, or be used in the future, with regards to the management of change?

Notes

- 1 *Grampians Water Annual Report* (1997/8).
- 2 D. Harvey and D. Brown, *An Experiential Approach to Organization Development*, 5th ed. (New Jersey 1996: Prentice Hall International).
- 3 D. Dunphy and D. Stace, 'Transformational and coercive strategies for planned organizational change beyond the OD model', *Organizational Studies*, 9 (1988): 317–34.

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