

**Book title: Managing Organizational Change in Public Services: International Cases, Issues and Challenges**

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Chapter Title:

**Managing with Environmental Turbulence in Public Sector Organizations**

Book Chapter Abstract

*As in the private sector, many public sector organizations face turbulent operating environments. In order to successfully survive, public sector managers need to progressively adapt and change so that they can maintain an alignment between conditions of the environment and their organizational direction and capability.*

*Strategic issue management is one discipline that when effectively practiced, can greatly facilitate the ongoing management of this alignment process. This chapter will examine aspects of strategic issues management as one useful component of the change management process as applied to public sector organizations.*

*After a discussion of general conditions facing the public sector, the chapter will go on to propose processes which could act as a discipline for strategic change management in public sector organizations operating in relatively high levels of turbulence.*

**Public Sector Perspective**

The public sector is generally perceived as that section of a society that provides services from the three levels of government, namely national, state or region and local. Public services provided usually include education, health, security, law and order, infrastructure management. In recent times, these services have been progressively extended to include other social services related to the monitoring and maintenance of the environment and watching over underprivileged sections of the community (Fredrickson 1980, Starling 2005).

A review of values on how resources are allocated in the public sector took place in many western countries during the 1970s. This gave rise to the movement known as 'The New Public Administration' (NPA) (Wilenski 1988). The underlying philosophy of this initiative added social equity to the classic objectives of public sector organizations. This introduced the rationale of efficiency, economy and the coordinated management of services provided. This movement has continued to evolve with increasing emphasis on matters such as ensuring equality in government service availability, management accountability, and increased responsiveness to the needs of citizens. Primary goals of the New Public Administration are concerned with executing public mandates as effectively and economically as possible, and to influence and execute policies that more generally improve the quality of life.

A number of reasons for the change in public sector philosophy were suggested (Kemp & Kemp 1992, Wechsler 1989):

- Reductions in State and Federal grant programs
- The electorates' aversion to increased taxes
- Increasing acceptance of financial self reliance
- New emphasis on raising revenues without increasing taxes
- Diminished fiscal capacity
- Increased demand for services

Increasing and changed demands on how and what public sector organizations did, meant that there needed to be changes in how these organizations were managed. This impact is often seen as another era of change often described as New Public Management '(NPM) (Exworthy and Halford 1998,). The main themes of these public sector reforms in the UK have been summarized as follows (Bovaird and Russell 2007);

1. Stronger leadership with a clear sense of purpose
2. Better business planning
3. Sharper performance management
4. Dramatic improvement in diversity
5. A more open service that allows for new talent
6. A better deal for staff

In their assessment of the UK reforms between 1999 and 2005, these authors perceive a further wave of reforms that took place after October 2003 ((Bovaird and Russell 2007, p316). Here there is more emphasis on the strategic and market orientation aspects of public management;

- Strategy focus on the top four or five priorities
- More rigorous challenge on the achievement of government targets
- Better understanding of customers- make them the heart of policy design
- Improve connections between departments and the front line delivery point
- Better leadership
- Better human resource management
- A better understanding of the management of risk

## . Improved efficiency

Projecting forward, an OECD symposium suggests that governments of the future face a number of challenges if they are to keep up with changing societies by learning how to understand the needs of increasingly diverse, mobile, complex and fragmented constituencies and to come up with appropriate action in response to those needs (Lau 2000). Changing demands on government translates to responsive changes of the various public sector organizations vested with the responsibility of delivering a range of public services.

## **Operating Environment**

It is useful to conceptualize the public sector operating environment in order to better understand the forces at play in managerial decision making and policy. A model of the operating environment and dynamics of Western public sector organizations is proposed in Figure A (based on Figure 1, Perrott 1996). In this model, a public sector organization's primary focus and *raison d'être* is to effectively deliver a range of services to nominated consumer groups. Strategies regarding the nature, pricing, distribution, and communication of the services offered, initially stems from policy formulated by the ministers in charge of the particular service portfolio. Ministers are elected representatives of the people and supervise a specified portfolio of public services under an Act of Parliament, e.g. Consumer Affairs, Education etc.

Most public sector organizations are now required to gain approval of their strategic plans from the appropriate minister. Plans set policy and strategic direction together with performance criteria within the terms of the legislative framework controlling the portfolio (Bovaird and Russell 2007). Performance of senior public sector managers is judged against the criteria agreed to in the plans.

Although consumers of public services are of primary importance, there are other stakeholders whose interests must be considered if an organization is to pursue a reasonable level of social responsibility (Preston & Post 1975). Stakeholders have been defined as those individuals or groups who have an interest in the organization or who are affected by its actions (Ansoff 1965). They may also take a proactive role around certain issues and form pressure groups in an attempt to influence decision makers and outcomes. This is most likely to occur in the public sector setting through approaches to the elected representatives or minister in charge of the portfolio of interest, thus impacting on the mandates, strategies and/or priorities of the public sector organization concerned.

The nature and frequency of interaction between the public service organization and its key constituents in its operating environment creates a turbulence that in turn impacts on internal strategy and structure. It has been suggested that contemporary governments are exposed to a much greater array of outside forces in a number of ways (Lau 2000);

- greater economic interdependence with other organizations

- a decrease in government monopoly status, hence greater competition for the services they offer
- increasing liaison and interaction with international entities
- progressive government reforms with increased governance and accountability
- the changing nature and range of public services offered
- linkage, communication and coordination between government at sub national, national and international levels.

One useful framework to review the expected dynamics of the public management in the twenty first century is the principal-agent framework (PAF) (Lane 2005). This framework places the government as principal facing different agents in the form of service providers to the public voters. Public management differs from the private sector in that the public sector has two logics that must be adhered to; efficiency and accountability. Hence in public sector management, it matters not only what they accomplish, but also how they accomplish it (Laffont 2001).

In addition to the contractual arrangement between government and agent, there are reforms and changes to these agreements. Hence the acceleration of the practicalities of the new public administration as the reform agenda continues to gain momentum (Lane 2005, p 6-7). The reforms that continue include; emphasis on outputs and outcomes, productivity and effectiveness, customer service, downsizing or economy, deregulation or reregulation, decentralization, privatization or public-private partnerships, contracting out, and leaner and flatter organizations.

The public reform agenda has been inhibited by the absence of a self-inventing mechanism which is the ability to transform public systems and organizations to create dramatic increases in their effectiveness, efficiency, adaptability and capacity to innovate (Osborne and Plastik 1997). Prevailing wisdom in political science was that government bureaucracies were immortal and that their status quo was difficult to change and showed resistance to change.

Going forward, a whole new set of values have been recommended to estimate the value of public services (Lane 2005, p 34);

- Benchmarking and total quality management
- Results based budgeting and accrual budgeting
- User charging
- Privatization
- Outsourcing

Background conditions making way for the accelerated adoption of public management change are seen to be firstly, a maturing of the public sector due to imposed limits of available funds and the reluctances to increase taxes to fund expansion of activities (Lane 2005, p 11). The second is the information revolution increasing both the quality and quantity of information available to agencies. This also impacts upon the ability to network, reduce service operating costs, and make services more accessible to target audiences. The third factor is globalization which impacts on government through

accelerated policy diffusion such as deregulation, global public procurement and migration from one state to another. The fourth factor is the growth in public sector services during the twentieth century which is said to have grown on average, faster than the private sector (Lane 2005, p12).

These accelerated changes in background condition for public service organizations can be viewed as an increase in operating environmental turbulence which will be discussed in the next section.

INSERT FIGURE A

### **Measuring Environmental Turbulence**

Turbulence has been seen to involve monitoring three dimensions of each key environmental variable, namely the level of changeability, level of predictability and the degree of complexity (Ansoff and McDonnell 1990). It would be useful for management and board members to discuss perceptions of environmental turbulence from time to time. This would enable a meeting of the minds regarding the scope and frequency of strategic discussions and planning sessions. Alternatively if the senior management team compared their aggregate environmental turbulence score with that of the board, dialogue could follow to discuss reasons for any variance. During the process of turbulence assessment, particular issues and trends would be tabled and come to the notice of board and senior management. Gaps in knowledge would trigger action for further research and investigation. A rise in perceived turbulence levels could also trigger a review to existing practices of board-management communications and liaison. The end result should be a more informed and responsive board and management.

There have been previous attempts to measure perceptions of environmental turbulence. Based on individual perceptions, estimates can be made of the level of turbulence of various factors in the operating environment. The variables used would be selected to suit the type of public sector function and purpose under review, and may include the following environmental factors;

- Customers
- Competition
- Shareholders
- Lobby and pressure groups
- Trade Unions
- Social/Demographic trends/change
- Government Policy
- Relevant Legislation
- Economic trends/change
- Industry Dynamics
- Technology

A scale that has been prepared by other academics (Ansoff and McDonnell 1990) may be used to estimate the level of turbulence for each of the environmental variables selected.

Each variable may be assessed according to a five point environmental turbulence scale made up of the following increments;

- Level 1; Repetitive
- Level 2; Slow Incremental
- Level 3; Fast Incremental
- Level 4; Discontinuous Predictable
- Level 5; Discontinuous Unpredictable

Level 1 environments are seen to be repetitive. Here there is little change over time with events tending to move in cycles rather than changing. Level 2 indicates change that is incremental but slow. Generally it is easy to predict the nature and rate of change in level 2 environments. Level 3 is also incremental but change occurs in the various environmental factors at a faster rate. Level 4 describes an environment that introduces new dimensions of change and turbulence which are not extensions of the past; hence they are discontinuous. However, from the knowledge available, they are predictable and known in advance of them occurring. An emerging technology that is known to industry members may be an example. A change in legislation that affects the terms of public service marketing is another example. Level 5 is the level where the changes occur which have no ties with the past. They are discontinuous and unpredictable.

Using these environmental dimensions and the variables listed above, an instrument was developed that attempted to measure public manager's perceptions of environmental turbulence at a particular point in time (Perrott 1993). The following list indicates how a sample of senior managers of a state owned electricity authority operating in New South Wales, perceived the aggregated level of environmental turbulence of their organization over three time dimensions; for the present, three years previous, and three years into the future;

Three years previous:	2.65
Present time:	3.24
Three years ahead:	3.66

On the five point scale outlined above, the state electricity authority aggregate indicator was seen to be 'Slow Incremental' approaching 'Fast Incremental' three years previous (2.65), 'Fast Incremental' at the time of the survey (3.24), and 'Fast Incremental' approaching 'Discontinuous Predictable' in three years time (3.66). It is significant that in this sample set, managers perceived an increase in turbulence levels from 3 years before, and anticipated a further increase 3 years into the future. At the time of this research, managers were anticipating continued pressures from politicians and stakeholders, to improve service effectiveness and operating efficiencies.

Environmental turbulence measures could greatly assist senior decision makers to gain insights to conditions of their operating environment. For example, as an introduction to a board-management meeting that has been called to discuss the present position and future

directions of the organization, individual members could indicate their scores for each of the variables selected for review. Differences in perceptions of environmental turbulence could be debated and particular areas discussed in-depth. It can be a useful exercise to observe perceptions of turbulence for different time zones. This will indicate if individuals perceive the rate of turbulence to be increasing or decreasing. Fast moving or high turbulent environments will present challenges as to how a balance is maintained between conditions of the environment and the public sector unit's strategies formulated and implemented to ensure potential strategic and capability gaps are eliminated or minimized.

The purpose of this book chapter is to discuss approaches that would be effective and appropriate for public sector organizations that face relatively high levels of environmental turbulence. Figure B sets out the sequence of events that could be seen to be necessary for such an organization to react to this type of operating environment. Here, both internal and external forces are impacting upon the organization. At a high level, these forces manifest themselves by way of strategic issues that the organization needs to consider in terms of urgency and potential impact (situation A in Figure B). The next phase in the sequence, involves a considered and planned response for those issues that are classified relatively high impact and urgency, and are capable of being processed with the available resources at a point in time (situation B in Figure B). Implementation of planned response can then be streamed into two modes of action. Situation C (in Figure B) involves internal action such as organizational change. Situation D (in Figure B) will involve external actions such as marketing or communications to public service consumers and/or stakeholders.

Change management has been defined as a process of continual renewal of an organizations' direction, structure and capabilities in order to serve the ever changing needs of its external and internal customers (By 2005, p 369). This chapter will focus on the early stages of this process dealing with elements related to how strategic issues may be effectively considered and processed in organizations facing relatively high levels of turbulence. The premise underlying this focus is that the volume and diversity of strategic issues is likely to increase as environmental turbulence levels increase (Perrott 1993).

INSERT FIGURE B

### **Strategic Management**

For public sector organizations to meet their new challenges, they may need to look to the private sector for guidance. For example, strategic management is seen as a potentially useful discipline as it creates the basis for allocating resources, evaluating performance, resolving conflicts, recruiting support, justifying decisions to legislators, explaining the organization to the public, and performing a wide variety of other management chores (Behn 1980). It has been seen as having the potential of introducing a rational technical perspective into the otherwise highly politicized processes of government (Wechler 1989).

Strategic management broadens the traditional notions of strategic planning to include strategic thinking, strategy formulation and implementation. It merges short term and long term planning by seeking immediate actions that simultaneously address issues in a dynamic, evolving environment (Nutt & Backoff 1987). Strategic management provides organizations with a framework for developing abilities for anticipating and coping with changing environments (Montanari and Bracker 1986, p252). Some authors argue organizations of any size would find it impossible to manage results for the long or short term without a well developed capacity for strategic management (Poister and Streib 1999). They define this process as the integration of all other management processes to provide a coherent approach to establishing, attaining, monitoring and updating a public service agency's strategic agenda. Strategic management has been described as an integral part of the public sector change management process (Joyce 2000).

As an important cornerstone of strategic management is the alignment of strategy and capability with conditions of the environment (Ansoff & McDonnell 1990). Figure C demonstrates the manager's task in achieving this alignment so that strategic or capability gaps do not occur. Over time, an organization needs to manage a balance between conditions of the environment, its strategies to develop opportunities and overcome threats and its capability to implement such strategies. If strategies are not in line with conditions of the environment, strategic gaps impede the ability to achieve growth and profit objectives. An example of a strategic gap would be a public sector organization offering a service that is no longer preferred or demanded in its current form.

A public sector organization must also have sufficient resources and capabilities to implement strategies so as to avoid the emergence of capability gaps. Resources may be classified into tangible and intangible assets of the organization. However, they need to be translated into capabilities which support priority strategies for them to become effective and efficient. If strategies are not implemented as intended, a capability gap exists.

Strategic management has become a central requirement of public management (Parkin 1994, Bovaird and Russell 2007). In essence this involves each public service unit maintaining a balance between conditions of the environment (summarized as threats and opportunities), formulating effective strategies and building the capability to implement these strategies (summarized as strengths and weaknesses). It has been said that, in turn, strategic behaviour shapes both the capability of the organization and its environment (Ansoff 1987, p 513)).

#### INSERT FIGURE C

Levels of turbulence will determine the type of response an organization will need to make in order to successfully survive. For example, at relatively low levels of turbulence (Level 1, "Repetitive" and Level 2, "Slow Incremental"), a periodic or annual business planning approach may be adequate. Here opportunities and threats can be anticipated in advance. When the planning cycle begins, the public sector unit's response can be built into unit and marketing plans.. However, when turbulence levels increase (for example to



Level 3, “Discontinuous” or Level 4, “Discontinuous Unpredictable”), strategic issues that may affect the unit’s ability to achieve its objectives, may emerge at more frequent intervals, and between planning cycles.

Uncertain operating conditions in a public organization may impose the need to employ both a conventional periodic planning system and a more dynamic strategic issue management system (Camillus and Datta 1991). Using this dual approach, core strategies that are not expected to be impacted by changing or emerging conditions in the short term, may be planned within the regular planning cycle. A strategic issue management system (SIMS) would provide the capability to offer a more sensitive and immediate response to environmental changes that are less predictable.

### **Strategic Issue Management**

An important element of successful public sector organization operation over time will be its ability to effectively process and manage emerging issues. Strategic issues have been defined as potentially important developments, which in the minds of decision makers, are likely to affect the organization’s ability to achieve its objectives (Ansoff 1980). Although the formation and focusing of attention is seen as a first step in the process by which issues are transformed into organizational action (Dutton, Fahey & Narayanan 1983), it is the link between issue recognition and subsequent action that makes the understanding of strategic issue management systems important (Dutton 1988). Strategic issue management systems consist of routines and procedures which are designed to identify, track and resolve strategic issues. Strategic issues have been seen to play a critical role in initiating the process of strategic change in organizations (Dutton & Duncan 1987). The major product of strategic issue management has been described as the dynamic strategic change agenda that serves to keep an organization in balance with its ever changing environment (Eadie 1989, p169). The process is seen to pass through a series of events or phases (Dutton & Duncan 1987);

*Activation of diagnosis:* recognition and isolation of issues for further attention.

*Assessment:* attempts to identify the degree of urgency of the issue

*Feasibility:* making judgments about the feasibility of effort and commitment for action to resolve the issue

Strategic issue processing techniques present the opportunity for managers to identify issues and plan appropriate actions which address high priorities (Palese Yancey Crane 2002). Stages in this process include; issue capture, review of implications, assessment of importance, priority setting, action planning. Figure D shows how the various phases, tasks and action steps blend to represent a strategic issue sequence appropriate for use by public sector managers.

INSERT FIGURE D

During times of relatively high turbulence, an organisation may relegate formal corporate plans to the background. Here a strategic framework in the form of an outline plan will

set out the key parameters that are fundamental to the public sector unit's operation and are less likely to change over time. Decision makers will then focus on strategic issue management by scanning the relevant sections of the environment, sorting and prioritising issues as they emerge, concentrating resources and projects that address critical issues. Just as Radar and Satellite surveillance management processes need to be upgraded in times of impending attack by enemy forces, issue scanning and processing capability in a public sector unit needs to be upgraded as environmental disturbance increases.

A public sector issue management team could meet for the purpose of conducting a strategic issue's workshop. Here, members would list the issues that are relevant to the business units operation. They may be listed under the separate headings of *External Issues* (Opportunities and Threats) and *Internal Issues* (Strengths and Weaknesses). Working together, they could then place each issue in terms of its perceived level of urgency and potential impact on the business unit or organisation on a *strategic issue positioning matrix* which is shown in Figure E. The way a unit needs to respond to an issue will be determined by the perceived nature and size of the issues impact on the unit's operation and the level of urgency needed in dealing with the issue (Ansoff 1980).

When plotted on the *strategic issue positioning matrix*, issues can then be seen in terms of their relative importance and need to take action. For example issues which have both a high level of potential impact and urgency will fall in the bottom right hand sector of the matrix. Because they are seen to be the most important issues faced by the unit at that point in time, action plans need to be formulated with some priority and the necessary resources found which provide the capability of the public sector unit to address the issue.

#### INSERT FIGURE E

Using this approach, it may be possible to eliminate or minimise strategic or capability gaps which could do serious damage to the standing and value of a public service unit or organisation. During times of relatively high turbulence, it is likely that both board and senior management would be involved in the strategic issue management process.

Frameworks, workshops and processes which facilitate communication and awareness on critical issues and their potential impact on the business will help prevent conflict and dissonance occurring at a time when governors and managers feel the pressure of threat to the well being of the organisation. This change in emphasis does not suggest that strategic planning is not important. It merely suggests that in times of uncertainty and unpredictable change, board and management need to concentrate on priority issues that could threaten a unit's viability or offer it timely opportunities. It also means that highly detailed strategic plans may be subject to such frequent change that they become irrelevant and useless in a practical sense as a tool for directing and planning future direction.

#### **Stakeholders and Lobby Groups**

Other researchers have highlighted the importance of external groups when determining the strategic direction of contemporary public service organisations (Bovaird and Russell 2007). Hence the need to consider the potential impact of strategic issues on key stakeholder and customer groups. Public sector strategists must therefore take into account all parties (i.e. stakeholders, lobby groups and public service customers) who either affect, or who are affected by the organization's strategies (Nutt & Backoff 1987). Some see a progressive shift away from an internal preoccupation with a public agency's own activities to the development of business practices that will prepare them for true market driven competition (Towles 2003).

There are likely to be a number of stakeholder and lobby groups of general interest to a public sector organization at a particular point in time. Stakeholder groups are generally wide ranging in terms of their particular interest in a public sector organization and need to be considered separately and discretely. They may be defined as any non-customer group that has an interest in the activities, operation and outcomes of a particular public service organization. Examples of stakeholders include employees, suppliers, trade unions, lobbyists, community groups, politicians, councilors. Managers must be able to classify stakeholders according to meaningful criteria in order to guide the amount of time and resources devoted to them. Some authors suggest that the literature often fails to classify stakeholders and delineate strategies for action (Grant et al 1991). Stakeholder significance is seen to depend upon the particular issue being considered by management. Both stakeholder opinion/attitude and public sector manager action strategy may vary according to the circumstances of the issue under consideration. For example, a public sector organization may contemplate changing its range of services offered because of changes to its operating budget. Here, stakeholders such as trade unions, suppliers and other public sector organizations may express a particular opinion and may want to exert power to influence final outcomes. By contrast, if a priority issue was related to concerns of the organization's activities in the environment, then stakeholders or lobby groups such as residents, local councils, and environmental protection groups may take more interest.

Managers must therefore constantly assess stakeholder significance in the light of each priority issue. To this end, an appropriate framework would guide decision making and prevent ad hoc and hurried actions being made on a day to day basis. Although there may be a range of criteria which will be of interest to organizations managing stakeholder concerns, two will be of vital concern (Perrott 1996). First is the level of interest stakeholder groups have in an issue at a particular point in time. The second is the power or influence they may bring to bear on the public sector organization and its strategy in dealing with the issue.

The *level of interest* a stakeholder or lobby group has in an issue will indicate whether an organization needs to consider strategies such as in depth research and custom developed communications. The *degree of power* a stakeholder group may exert over an organization in relation to an issue will also be of concern (Mintzberg 1983). These variables could be important considerations in deciding priorities for action, the amount

of resources allocated to dealing with the stakeholder or lobby group, and the type of interactive strategy adopted. A two dimensional matrix developed around the level of interest and the degree of power would provide a normative framework to assist public sector managers in developing appropriate action strategies for each group.

Stakeholder/lobby group zones shown in Figure F would guide the formulation of effective strategies in dealing with the particular issue. A strategic management group (SMG) could be established which would be responsible for managing the monitoring of strategic issues, assessing their significance, and deciding on appropriate action (Perrott 1993). This would provide the real time approach to issue management which is seen to be critical during times of relatively high environmental turbulence (Ansoff & McDonnell 1990). At a particular point in time, the SMG would identify relevant stakeholder groups relating to a particular issue. Each stakeholder group would be plotted on the matrix according to their perceived level of interest in the issue, and their power to influence decisions or actions relating to the issue.

#### INSERT FIGURE F

The SMG would embrace the responsibility of using the Stakeholder/Lobby Group Action Matrix shown in Figure F to guide discussion and decision making on how particular groups should be dealt with throughout the active term of an issue. General guidelines for possible action are set out below:

*No Action (Zone 1):* Groups in this zone have a low priority for attention because of the combination of their relatively low perceived power to influence either the organization or the issue. Here, they also have a low level of interest in the issue. As the issue evolves over time however, circumstances may change. Hence ongoing monitoring of stakeholder interest levels and power bases is advisable as a particular group's positioning may change as the issue moves along its evolutionary cycle.

*Priority Communication (Zone 2):* Here high interest groups are perceived to have relatively low power base to influence the issue or the organization. Because of their potential to influence others, the nature of their interest needs to be accurately assessed and monitored through research. For example, a group in this zone may link up with a group in Zone 4, thus providing the power base which was not previously available to Zone 2 groups.

A cost effective communication strategy needs to be formulated for each major stakeholder group in Zone 2. The strategy should include the organization's position and future actions proposed in dealing with the issue. Interests and concerns specific to each key group must be identified. Details need to be included on how the organization plans to address them. Even though the power to influence the issue is relatively low at this time, an early and effective communication strategy may prevent any tendency to escalate the level of power to influence the issue in the future.

*Priority Lobby Action (Zone 3):* Here the high level of interest, high power combination identifies groups for priority action. Qualitative research should identify concerns and

interests specific to each group. Opinion leaders and factional interests within each group should be identified if effective strategies are to be developed and implemented. Comprehensive action plans should be formulated for each group which set out how the issue is to be dealt with. The plans may include objectives to be achieved, strategies and the detailed tactics when final action priorities are decided. Strategies may include further research, meetings, joint task force, consultative committees, strategic alliances etc.

*Latent Power* (Zone 4): Combination high power and low interest stakeholder groups should be handled with respect as they have the potential to become supporters or adversaries on particular issues if their interest level changes. Levels of interest and particular concerns should be monitored to detect any changes over time. More comprehensive and tailored communication programs in the form of integrated public relations strategies should be developed for important groups in this sector. Communications should convey how the public sector organization plans to deal with the issue in question and the particular aspects of potential interest to these groups.

This process should also track associations and alliances with other stakeholder and lobby groups, especially those from Zone 2 (Priority Communication), as these groups have high interest levels but lack the power base of groups located in Zone 4 (Latent Power). Strong alliances surrounding a particular issue between groups from these two different zones may present forces which equate with those located in Zone 3 (Priority Lobby action). Between them they possess high levels of interest and power which potentially impacts on how the public sector organization may deal with the issue.

### **Public Service Customers**

Although attention to all stakeholder's needs is a desirable state of affairs for public sector organizations, performance will be ultimately judged on its primary function which is to provide a range of services to customer groups in line with its legislative charter and ministerial guidelines (Alford 2002). In line with the previous definition of stakeholders, customers can be classified as an important sub set of stakeholders, i.e. groups of existing or potential users of the services offered who either affect or are affected by the public sector organization's strategy in dealing with a particular issue. There has been a move away from the traditional values which public sector managers held, that services would be adopted by some automatic process.

The language of customer service is seen as central to the New Public Management with parallels being drawn with what the public sector provide compared to the standards offered by comparable private sector organizations (Denhardt and Denhardt 2007, p58). Indeed, some see the increase in customer satisfaction and the improvement in service quality as being among the major causes and objectives of public sector reforms in both developed and developing countries (Hague 2001). Hence public manager's increasing focus in efficiencies and effectiveness in service management. Efficiency refers to the degree to which service provision is maximized with the resources in hand. Effectiveness refers to the concordance of the public service mix with the stated objectives of the service providers. Productivity in public service provision refers to improvement or

deterioration over time in the ratio of service provision to resource consumption (Lovell 2002, p12).

Many public sector organizations have broadened the range of services offered as community interests have broadened to focus on services related to such matters as individual welfare and preservation of the environment. Some of these problems and issues are seen to include environmental pollution, recycling, traffic congestion, drug use, community safety, homelessness, social exclusion issues, unemployment, discrimination, wellbeing of the elderly (Joyce 2000, p60). Hence there have been increasing pressures on public resources and priority management regarding the scope and depth of public services offered.

Notwithstanding pressures to increase the range of public services on offer, there is also a strong drive to improve customer service quality in government. One comprehensive list of quality issues in local government demonstrate the scope of service quality measures of concern (Denhardt and Denhardt 2007, p61 );

*Convenience*: the degree to which services are easily accessible and available

*Security*: the degree to which services are provided in a way that makes citizens feel safe

*Reliability*: the degree to which services are provided correctly and on-time

*Personal attention*: how employees provide information and work with citizens to help meet their needs

*Problem solving*: how employees provide information and services to solve problems

*Fairness*: the degree to which government services are provided in a way that is equitable to all

*Fiscal responsibility*: measures the degree to which citizens believe services are provided with financial responsibility

*Citizen influence*: the degree to which citizens feel they can influence the quality of service they receive

Increasingly marketing is seen to have an important role to play in the distribution of government services and projects (Rusaw 2007). The cornerstone of the marketing concept is to determine customer wants and desires and then satisfy them. In the public sector, this suggests four stages: basing public policy on consumer research, performing cost-benefit analysis, test marketing proposed policies, and evaluating previous policies (Enis, Kangun & Mokwa 1978). In addition to the ongoing and systematic marketing process, interaction with customer groups may need to be considered in the context of particular strategic issues which emerge. For example, take the instance of an impending electricity rate rise brought about by alternative energy generating technologies to be introduced during times of peak consumption. The responsible energy authority will need to review how certain customer groups use and value the electricity supply, bringing into possible review product form, pricing, distribution and communication strategies.

Managers therefore need to constantly assess the impact of particular issues on various customer groups. To this end, an appropriate framework could guide decision making and prevent ad hoc and hurried actions being made on the run. Although there may be a

range of criteria which will be of interest to organizations managing customer service strategies around particular issues, two will be of particular concern. First is the level of impact the issue may have on particular customer groups and their ability to use the services offered at a point in time. The second will be the perceived level of value a customer group receives from the service offered.

A two dimensional matrix can be developed around the level of impact of the issue and the perceived value of the service offered. This would provide the basis of a normative framework to assist public sector managers in planning appropriate action strategies to deal with a particular issue. Customer zones shown in Figure G would guide the formulation of effective strategies in dealing with the particular issue. The strategic management group (SMG) responsible for managing strategic issues and the Stakeholder action strategies referred to above, could also guide decisions on customer action strategies.

The SMG could embrace the responsibility of using the Customer Action Matrix shown in Figure G to guide discussion and decision making on how particular customer groups should be dealt with throughout the active term of an issue. At a particular point in time the SMG would plot each key customer group on the matrix according to the perceived level of impact an issue may have on the provision of services to it, and the known level of value the service enjoyed by the particular customer group. General guidelines for possible action are set out below:

*No Action (Zone 1):* As potential impact of the issue of providing service to customer groups in this zone is relatively low, and the level of value enjoyed is also relatively low, managers would classify it as a low priority area and action is unlikely to be forthcoming.

*Cost Effective Communication (Zone 2):* Because of the relatively high potential impact of the issue on customer groups in this zone combined with a relatively low perceived value of the service, management should develop strategies to cost effectively communicate how the issue will impact on groups in this sector of the matrix.

In the electricity rate rise issue sighted above, small user groups could be sent a letter explaining that there will only be a small change to their regular accounts.

*Priority Customer Action (Zone 3):* In this zone, the issue under review has the potential to have a relatively high impact on customer groups falling within it. As the service is perceived to be of high value to customers in this sector, priority action is appropriate. Management should begin with setting objectives to be achieved, planning strategies and then breaking them down into tactical detail to assist in the implementation process. Plan execution would be assisted by effectively delegating and motivating individuals and departments involved in actioning corrective strategies.

In the electricity example, low income users may receive special treatment with the introduction of a different rate that does not pass on the full cost increase caused by the alternative technologies. In another example, customer with 'green' values may be

informed of the environmental benefits of the partial switch to alternative energy technologies.

*Rapid Communication (Zone 4):* The potential impact of the issue under review on customer groups falling into this zone is relatively low. However, the value of the service used is perceived to be high. Hence the importance of sending urgent communications to these customers to curtail uninformed fears they may have of the level of impact an issue. Although this fear may be unfounded, a false anticipation may be initiated by word of mouth or uninformed press.

In our electricity example, heavy off-peak users could be send an urgent communication informing them that the increases will only impact on energy used during peak periods, and therefore will not impact upon this groups periodic energy accounts.

INSERT FIGURE G

### **A Perspective on Change Management**

The focus of this chapter has been how public sector managers may best organize strategic management processes in response to operating environments that are seen as increasingly turbulent (Burnes 2004, Senior 2002). Effective strategic management practice has been seen as an integral and important part of an effective strategic change practice in contemporary public sector organizations (Joyce 2000, p 2). A critical consideration therefore will be to understand the type of change best suited to the type of strategic management agenda being used at a point in time. One author has characterised change by the rate of occurrence as follows (By 2005 p 372);

- *Discontinuous change*
- *Incremental change*
- *Bumpy incremental change*
- *Continuous change*
- *Bumpy continuous change*

‘Discontinuous’ change is suggested to not have lasting benefits, whilst incremental change is seen to be exceptional and rare in the present and future anticipated operating environment (p372). However ‘bumpy incremental’ change is characterized by periods of relative peacefulness punctuated by acceleration in the pace of change. In this list of change types, ‘incremental change’ has been distinguished from ‘continuous change’ to enable an organization to constantly adapt to the demands of both external and internal environments. ‘bumpy continuous’ change is suggested as an additional category under the assumption that there will be periods of relative serenity punctuated by acceleration in the pace of change (p373).

A strategic change process has been proposed as a four phase planned change model ranging from exploration, planning, action and integration. Although this was described as a highly applicable model for most incremental change situations, it has come under



increasing criticism as more rapid and transformational change is needed to respond to more turbulent operating conditions. (Senior 2002). Hence the emergent approach to change where change is driven from the bottom up, stresses the unpredictable nature of change (Burnes 2004). The emergent approach to change is concerned with change preparation and readiness rather than a standard planned approach (By 2005, p375), hence is more appropriate in less stable and unpredictable environments which is the focus of this chapter. When addressing the scale of change, organizations may need to resort to corporate transformational change when change impacts on the organizations overall strategy (Dunphy and Stace 1993).

Although this chapter has emphasized the importance of strategic issues management as an effective component of ongoing strategic management, it is also seen as an integral part of the strategic change agenda in public organizations. A four staged approach to the change process has been recommended for public sector organizations (Joyce 2000, p15). The four stages embrace and include strategic issues management as an important aspect of preparing for strategic change. The preparation phase includes assessing or auditing the organization's readiness for change, paying attention to politician's agenda and priorities and understanding the critical strategic issues at hand. Other phases to facilitate the strategic change process suggested by Joyce are;

- Leading the change agenda with strong management and vision
- Engaging the change process and realigning activities and budgets
- Partnering the change with the public and others affected by the change

### **A Matter of Balance**

In summary, it can be said that strategic management in the public has become a permanent fixture. It provides the frameworks for developing strategies and capabilities for anticipating and coping with changing operating environments. In the opinion of some, public sector organizations would find it impossible to manage results for the long or short term without well developed capacity for strategic management (Poister and Streib 1999). However, strategic management is a generic term that embraces all activities and processes that involve how an organization formulates, formalizes and implements strategy.

Important components of strategic management will be strategic planning and strategic issue management. Both of these functions will be fundamental to public sector managers in meeting the terms of their legislative charter and ministerial commitments. What should be the balance of emphasis between these two important functions? The balance of emphasis will largely depend upon the level of anticipated turbulence a public sector unit faces at a point in time. For example in relatively stable environments (say levels 1-2 on our environmental turbulence scale), the strategic plan may be adequate to navigate the future as strategies and resources can be planned against a predictable environment.

However, near the other end of the spectrum where turbulence levels are relatively high (say levels 4-5 on our environmental turbulence scale), then more effort will need to focus on strategic issues as they arise from a less predictable environment. Under these

circumstances, the strategic plan would cover core strategies that are unlikely to be changed by issues emerging in the planning period ahead. This may take the form of an outline strategic plan. In this operating environment the public sector unit would be advised to develop capability for effective strategic issue management process along the lines suggested in this chapter. Here strategic issues can be identified and processed taking into consideration their importance and potential impact on key stakeholders and public service consumers. With such an approach, public sector managers would be taking advice from the research findings of private sector organizations operating in turbulent environments by providing greater adaptability and responsiveness to frequent change (Grant 2003). Not only should contemporary public managers develop the capability to process strategic issues as and when they arise, it has been suggested that they must anticipate the emergence of issues by thinking ahead (Leigh 2003).

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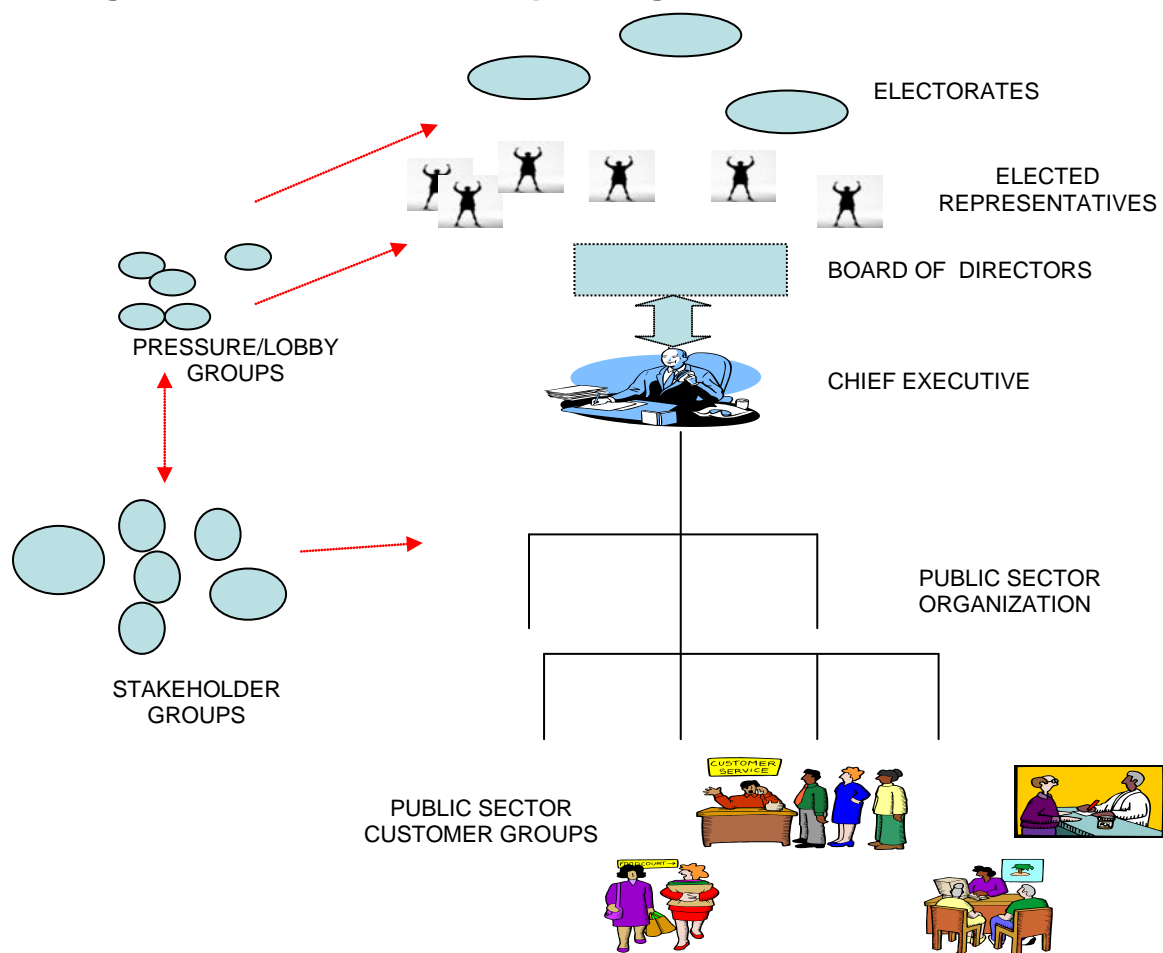
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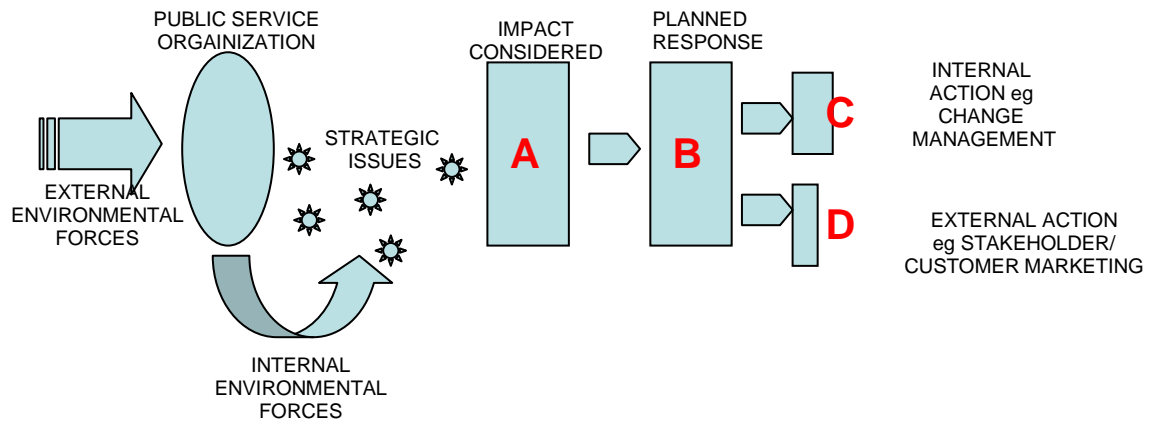
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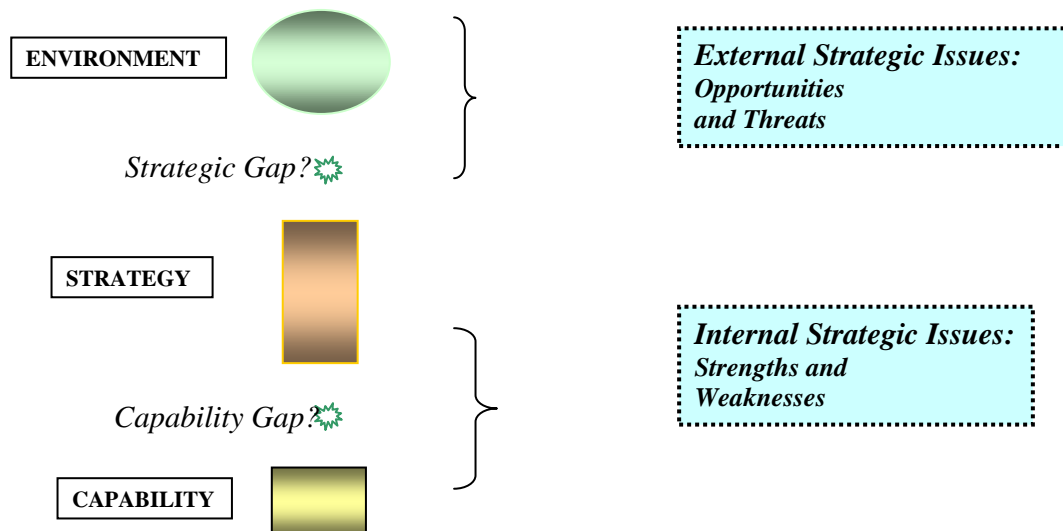
**Figure A     Public Sector Operating Environment**



**Figure B**      **Sequence for Public Sector Strategic Management Action**



**Figure C**      **Strategic Management Alignment Task**



**Figure D Integrated Issue Processing Matrix**

<b><u>ISSUE PHASE</u></b>	<b><u>PUBLIC MANAGEMENT TASK</u></b>	<b><u>ACTION STEP</u></b>
<i>Activation of Diagnosis</i>	Issue recognition and capture	Scanning and collecting issues: <u>-low turbulence</u> ( eg level 1- 2) * <i>Broad and Periodic scanning</i> <u>-moderate turbulence</u> (eg level 2.1-3.5) * <i>Selective and Regular scanning</i> <u>-high turbulence</u> ( eg level 3.6-5) * <i>Focused and in-depth scanning</i>
<i>Issue Assessment</i>	Assess issue urgency and impact	Use Strategic Issue Priority Matrix in a workshop to determine high priority issues (Immediate response issues). Refer Figure E
<i>Feasibility to Process Issue</i>	Making judgment regarding the feasibility of resolving the issue	<p><u>A For stakeholder issues</u>, use Stakeholder/Lobby Group Action Matrix in a workshop to decide action strategy. Refer Figure F</p> <p><u>B For customer issues</u>, use the Customer Action Matrix in a workshop to decide action strategy. Refer Figure G</p>



**Figure E**

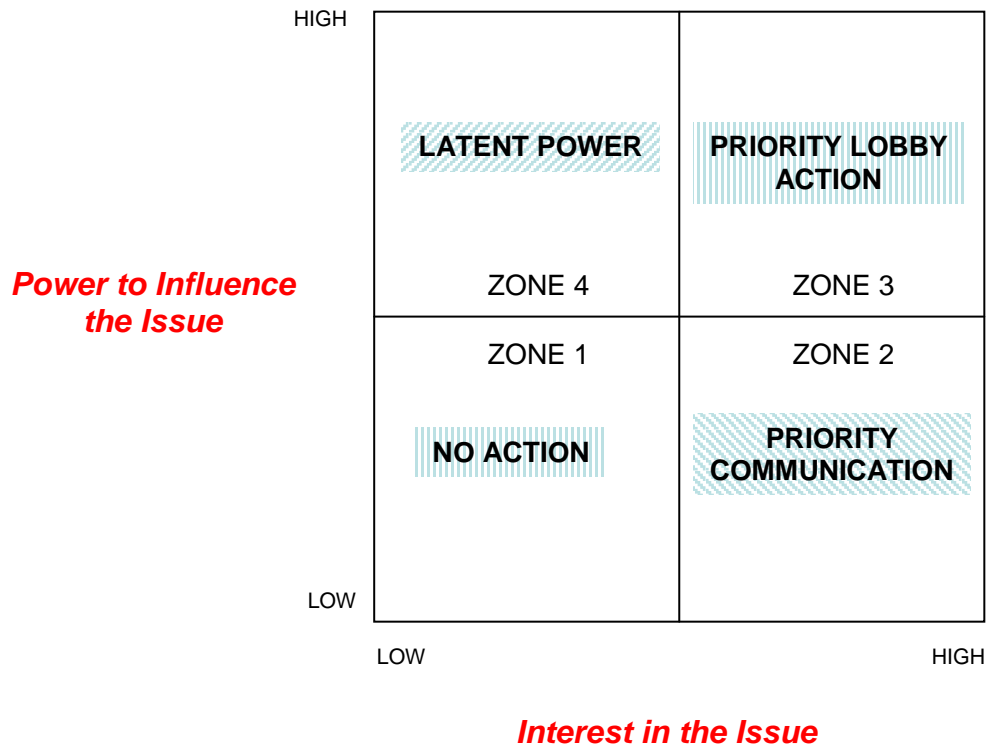
**Strategic Issue Priority Matrix**

		<b>POTENTIAL IMPACT of ISSUE</b>		
		Low	Moderate	High
<b>URGENCY of ISSUE</b>	Low	<i>Drop from the List</i>	<i>Periodic Review</i>	<i>Monitor Continuously</i>
	Significant	<i>Drop or Periodic Review</i>	<i>Periodic Review or Ongoing Monitoring</i>	<i>Plan Delayed Response</i>
	High	<i>Monitor and Review</i>	<i>Monitor Continuously</i>	<b>Immediate Response</b> * Detailed Planning & Implementation

**Priority Issues (Top Ten)**

- |        |         |
|--------|---------|
| 1..... | 6.....  |
| 2..... | 7.....  |
| 3..... | 8.....  |
| 4..... | 9.....  |
| 5..... | 10..... |

**FIGURE F      Stakeholder/Lobby Group Action Matrix**



**FIGURE G      Customer Action Matrix**

