

## **CAN THE STATE ACT AS A STRATEGIC MANAGER IN PUBLIC SECTOR REFORM? AND, HOW?**

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### **ABSTRACT**

This article aims to discuss the role of state in a globalizing world in line with the discussions around the transformations on the role of state. In this context, there are several issues to be taken into account in analyzing this transformation process and the public sector reforms going along with it. A recent article by Barber (2007) presented three paradigms of public sector reform with reference to possible methodologies to be used and the place of strategic management in the reform process. This article builds on these three paradigms and based on this analytical framework further discusses whether the state can act as a strategic manager in the process of public sector reform in a globalizing world, and if so, how?

**Keywords:** globalization, public sector reform, strategic management, state

### **ÖZET**

Makalede, küreselleşen dünyada devletin rolünün dönüşüm süreci tartışılmaktadır. Bu kapsamda, Barber (2007) tarafından yazılmış olan makalede, kamu yönetimi reformuna yönelik paradigmlar temel alınarak bu dönüşüm sürecinde stratejik yönetim yaklaşımının yeri ve önemi vurgulanmaktadır. Çalışmada, ana çıkış noktası devletin stratejik bir yönetici gibi kamu reform sürecini yönetip yönetemeyeceği, ve eğer bunu yapabilecekse sürecin nasıl yönetilmesi gerektiği tartışılacaktır.

**Anahtar Kelimeler:** küreselleşme, kamu sektörü reformu, stratejik yönetim, devlet

### **1. Introduction**

Globalization is a well-known and undeniable phenomenon for the past two and a half decades. Globalization brought the questioning of the state concept when boundaries becoming more and more insignificant while liberal capitalism proceed at

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full speed with free flow of capital and goods. Moreover, technological advancement in communication technology has turned the world into what is often called as ‘global village’ where distances do not count anymore and cultural influences are abound. At the very beginning of the globalization process, roughly during 1980s, there was almost a consensus on the issue that state lost its viability and credibility.

In the 1990s, however, the consensus around the role of state began to break. The more the negative effects of globalization on nations and societies came to fore, the discourse around the viability of state shifted towards its transforming role rather than questioning its existence.

By the 2000s, both leftist and rightist ideologies have been short of recipes to combat the negative effects of the globalization. This, in return, resulted in search for solutions regarding reforming the state and transform it in away to meet the increasing demands of citizens while offsetting the negative effects of globalization. This in return accelerated all around the world the efforts for optimum public sector reform in order to meet the challenges and demands of citizens.

This article, thus, building upon a recent article by Barber (2007), introduces three paradigms of public sector reform as an analytical framework for public sector reform while underlying the significance of the value of strategic management in the reform process. In this context, the main research question is whether the state can act as a strategic manager in public sector reform or not. And if the answer is affirmative to this question, then the next question is how?

In the light of this research question, the article will, first, summarize the arguments around the role of state in a globalizing world. Second, the three paradigms of public sector reform introduced by Barber (2007) will be brought into perspective. Next, with reference to these paradigms, the role of state as a strategic manager will be elaborated upon. Finally, the article will conclude that the state can act as a strategic manager and transform public sector institutions to strategic organizations as strategic management can be a useful tool for transformation in a globalizing world, provided that certain underlying conditions are met.

## **II. The Transformation of Role of State in a Globalizing World**

Globalization is undoubtedly transforming the role of state and with reason. As the firms and economies across the world have been increasingly influenced by the speed of transformation brought by globalization, it became imperative for the state to cope with the challenges arising from the process. Thus, globalization is bringing similar effects on the public sector as it has done on private sector. The traditional areas of responsibility for the national governments such as education, health care, pensions, etc. are currently exposed to international comparisons. Industrialized countries even face actual international competition in these conventional fields and they face foreign companies as providers. Thus in order to meet demands of the public, state needs to

transform itself, and transform in such a way to sustain the welfare of citizens as well as their demands. This, of course, is not and will not be an easy process.

A topical UNPAN report (2001) identified a variety of challenges faced by the state and public sector in a globalizing world in the twenty-first century. The challenges identified are as follows:

- Alleviation of poverty and inequality
- Advancement of human rights and democracy
- Protection of the environment
- Sustainable development
- Increased mobility of workers and migration
- Demographic trends, i.e. ageing population and impact of HIV, etc
- Bridging the digital divide
- Combating international criminal networks

Clearly, these challenges and their seriousness are affecting the state and public sector in a variety of ways, putting state more and more under pressure both nationally and internationally for further reforms while at the same time facing the old threats or in other words already existing problems (UNPAN, 2001:18).

There have been several different approaches to public sector reform imperatives and many theories and meta-theories came to fore while trying to answer the challenges of globalization upon the state. These theories are not within the scope of this paper. What is more important, however, is that the viability of these approaches is issue and case specific, depends on several variables thus makes it impossible to generalize.

While passing through a transformation process, a state faces several variables in order to be successful in reform efforts. The reform processes cannot be ideology driven per se as it is clearly seen in the past decades that neither left nor the right ideology around the world could be totally successful in this context. The recent global financial crisis has proven this to all the governments across the world by far. It also has shown that the states are vulnerable to external global crises or, in other words, to unexpected external shocks. Thus there is evidently a need to transform the state and proceed with an optimum public sector reform for that matter. In this context, the role of

strategic management concepts, tools and processes has undeniable significance. The next section will elaborate on this further.

### **III. Three Paradigms of Public Sector Reform**

Public sector reform in a globalizing world has been a rich source of debate around the world and also through several international organizations such as World Bank, IMF and OECD among others. Moreover, developing countries faced further pressure from these international organizations for accelerated public sector reforms in the shape of obligatory recipes. However, the results of these types of recipes are rather mixed. For example, according to a recent empirical study conducted by Moloney and its the findings “the World Bank’s public administration, law and justice projects inconsistently improve governance” (2009:609). This study is supportive of the fact that each state needs to generate its own transformation in line with its own governance culture. This is especially true for developing countries as the recipes of international organizations are usually geared by realities of industrialized world.

The theoretical discussions around public sector reforms are many and diverse, but resolving the theory with implementation process is further abound. Thus an analytical framework based on actual practices is believed to be more useful, especially to analyze the transforming role of the state. In order to have an analytical framework of analysis, as it has been mentioned above, this article will build on the three paradigms introduced by Barber (2007) concerning the role of state in public sector reform. This framework of analysis is important because it provides an analytical tool to assess whether the state can act as a strategic manager in the reform process or not. And if so, how?

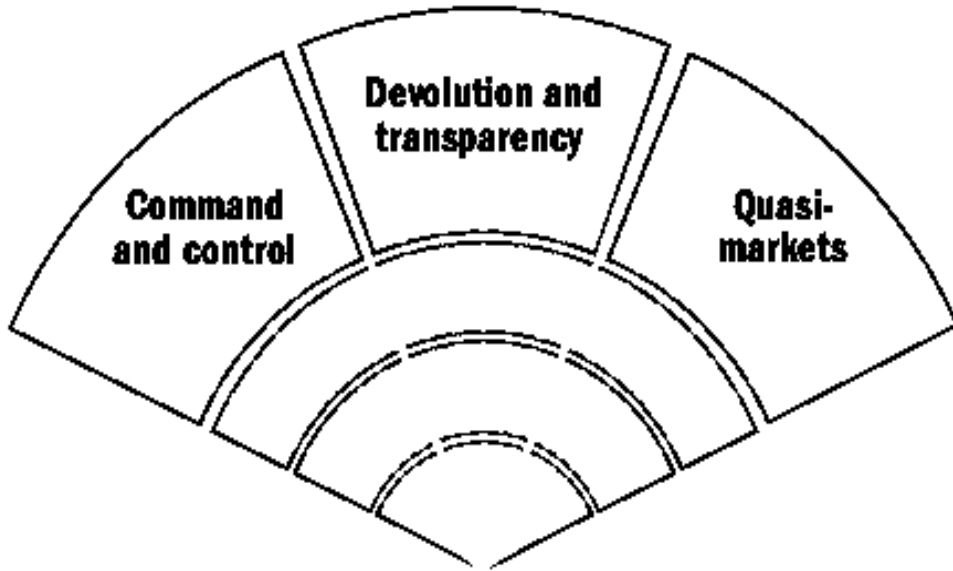
Barber’s three paradigms of public sector reform concern the methodology which can be employed in public sector reform and these can be briefly outlined as follows and they are further explained below:

- **Paradigm 1:** State in Command and Control - Top-down approaches to public sector reform.
- **Paradigm 2:** State as a Quasi-Market – Private sector oriented state or quasi-market approach.
- **Paradigm 3:** State as a Driver of Change – Devolution and transparency (driven by accountability).

The first paradigm which is a top-down approach to public sector reform, foresees the state and the government for that matter as absolute manager of public sector. This paradigm, when implemented well, has the advantage of targeted reform in

areas such as education and health reform and with much success. In this context, state is leading all the process. Thus within the context of rationalist theory terms, it is possible to define it strategically as Leader – Follower model of public policy making as well. However, there can also be disadvantages of this paradigm in public sector reform when the public refuses the own the inertia of reform created by the state, then the reform targets cannot be reached owing to its top-down approach. Especially, when globalization process enables international comparisons and competition in several reform areas of state for the citizens, such a top-down approach is likely to backfire.

**Figure 1: Three Paradigms of Public Sector Reform**



Source: Barber (2007)

The second paradigm refers to completely opposite end of the spectrum, in this context, state takes as a starting point the private sector approaches in public sector reform. In this context, especially as of 1980s, privatization has been the key way of dealing with

inefficient services of the state. However, through time, experience indicated that this is also not a workable solution, given the conditions of, especially the public utility services. State can thrive to be efficient as private sector but it has been experienced and perfectly understood by now that this has a considerable social price to pay.

The third paradigm, however, is in the middle of this above mentioned spectrum. It is based on devolution of power while at the same time keeping accountability at the core of public reform processes. In this case, devolution of power targets competition among peers in the delivery of public services. It can also be used part of the second paradigm mentioned above, at times providing half of the services through public sector institutions and other half by delegating the services to private sector. Thus it creates an incentive for public sector managers to compete and achieve better results.

In planning and implementing public sector reform, it is also possible to employ different variants and mixtures of these three paradigms. This depends partially on the strategic vision of public managers and also on the governance culture and mindset of the society in question.

#### **IV. State and Public Sector Reform**

The nature of public sector reform, its planning and implementation clearly requires the tools of strategic management methodology to succeed. Strategic management tools and processes enable the public managers to define optimum targets in the course of public sector reform process. And in the past decades, practice has also shown that when adapted to the realities of a specific state and society with a specific culture of governance, public sector reforms have been successful.

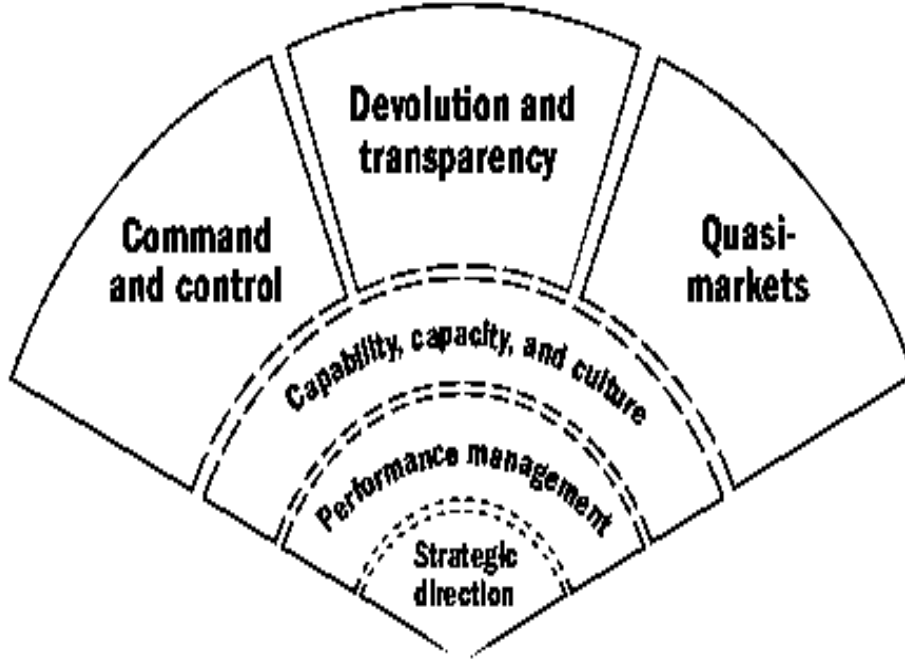
A recent study in implementing strategic management in public sector signifies, for example, that

*“There are some consistent findings that the way an organization implements strategy has consequences for outcomes and an organization’s performance. Studies found that linking the strategic plan to the budget (Poister & Streib, 2005; Poister & Van Slyke, 2002), using the strategic plan to drive the organization’s overall performance management system (Poister & Streib, 2005; Poister & Van Slyke, 2002), and using performance measures to monitor the progress of strategic initiatives (Hendrick, 2003; Poister & Streib, 2005) leads to better outcomes” (Poister, et al., 2010:18).*

The Figure 2 below, for example, further points out the significant role of strategic management in terms of public sector reform, clearly. Before choosing any

paradigmatic approach towards public sector reform, the state managers are faced with underlying basic issues to resolve.

**Figure 2: Main Pillars of Public Sector Reform Process**



Source: Barber (2007)

The first phase to consider in any public sector reform is “strategic direction or vision” that will be targeted for achievement of required results. This is a tough challenge already for the private sector institutions and it is even a worse challenge for the public sector since it also requires taking into account political processes and balances while defining any strategy for reform. The time factor is certainly crucial especially for reaching the targets given that politicians usually have short discount rates and public managers need time to adjust to reforms and manage them. However, if the strategy to be defined is serving both short and long-term objectives, the problems will be minimized. In order to overcome or minimize possible problems to be faced in reform process, tools of strategic management such as strategic planning where also resources to achieve the expected targets are taken into account are vital.

Second phase, then, would be building the necessary strategic capacity. A recent OECD Report (2009) points strategic capacity build up as one of the imperatives of public sector reform. The report underlines the fact that

*“It is crucial that decision makers get the facts right and take a strategic view on public policy responses. In particular, due to the complex nature of the current policy challenges, governments must develop their capacities to think and act in the long-term, collaborate and co-ordinate across levels and sectors of government, and to analyze and process diverse information”* (OECD, 2009:5).

The build up of strategic capacity has also been a significant subject of interest in the academic world from a variety of perspectives. Among those, a relatively recent study by Sillince and Mueller point out a significant problem in forming strategic capacity. Their work indicates that strategic perspectives can possibly switch and responsibilities of strategy can be reframed along the reform process (2007:170). Thus strategic capacity analysis and formation is crucial and this can be sustained through employing tools and processes of strategic management.

The third phase concerns performance management and the introduction of performance indicators to measure the interim results and progress of public sector reform process. These would also be followed by building result indicators and control variables along the reform process. This would allow testing the success of the reform, while providing competitive incentives for public managers. Moreover, international benchmarking could be brought into perspective to enhance performance management.

Fourth important phase before choosing the methodological paradigm in public sector reform process is mainly the mindset which forms an important imperative for progress. This relates to specific governance culture of a given society, the capacity to own and implement the targeted reforms both for the service providing public sector managers and also for the general public that will be the end user of the reform process. The service providing public managers should acquire required skills and the knowledge for the implementation of reforms and they should be enabled to govern change. The public managers are the drivers of change once they do not adhere to “business as usual”. For example, according to a very recent empirical study conducted by Currie (2010) concerning public managers conclude that especially middle managers are suppliers as well as recipients of change for both implementing deliberate strategy and facilitating adaptability.<sup>2</sup>

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<sup>2</sup> For further background studies on the topic see the empirical work conducted by Floyd and Wooldridge in 1992, 1994 and 1997, respectively.



The main pillars of public sector reform process are naturally linked with the paradigm to be employed. Figure 2 above provides the overall picture concerning the relevant phases clearly. Consequently, it is not a one way process but an interactive one. For example, if the state can be more strategic and less bureaucratic the changes in mindset need to be in parallel with that. This, in return, brings the significance of the performance management to fore. There is an ultimate need for fusion among all for the success of public sector reform process. Using this fusion of paradigms and their underlying pillars, thus, the state can become a strategic manager in public sector reform.

In this context, it is further important to note the following to enable state as a strategic manager. It is through the change management as shown in Figure 3 below; the state can sustain its role as a strategic manager.

The change management required to sustain the state as a strategic manager needs, to be based on strategic management process and its tools. Consequently, one pillar cannot be without the other. They are complementary processes and a designated holistic approach as such will clearly be successful. Moreover, as Dolowitz notes the processes associated with globalization provide national actors the means to learn how to govern more effectively - ensuring that the nation-state is as important today as it ever was in relation to the governing process (2006:263).

**Figure 3: Overview of Requirements Underpinning State as a Strategic Manager**

| From                  | To                       |
|-----------------------|--------------------------|
| Hit or miss           | Universal high standards |
| Uniformity            | Diversity                |
| Provision             | Choice                   |
| Producers             | Customers/citizens       |
| Inputs                | Outcomes                 |
| Generalization        | Specificity              |
| Talk equity           | Deliver equity           |
| "Received wisdom"     | Data and best practice   |
| Regulation            | Incentives               |
| Haphazard development | Continuous development   |
| Demarcation           | Flexibility              |
| Looking up            | Looking outward          |

Source: Barber (2007)

#### **V. Conclusion: State as a Strategic Manager**

As it has been discussed so far, globalization urges the nation state to redefine its role in line with the realities of the process itself. Thus the state, while redefining itself, it needs to transform its processes through behaving as a strategic manager. The way towards achieving this is not trouble-free, and it primarily depends on a complex fusion of different variables and paradigms to be employed in public sector reform. These

variables are tools of strategic management<sup>3</sup> such as strategic planning through which correctly targeted mission and vision and as well as resources to achieve the required results to be defined. Undeniably, along with strategic management, an efficient change management process will be complementary for the overall success.

Strategic management has two important assets or components in this context to offer for an optimum public sector reform process; and these are specifically, *strategic organization*<sup>4</sup> and strategic manager<sup>5</sup>, while governing complex processes and creating value. The state has the upper hand to be able to do both thus the state itself can be a strategic manager.

Next phase, then, is the vigorous performance management while driving the reform process. This is one of the crucial factors when state acts as a strategic manager because even in industrialized countries performance management in public sector has its challenges. A recent study by Newcomer states that experiences derived from several public sector reform processes indicate

*“complex communication, analytical, political, and measurement challenges in designing and implementing performance measurement systems. Yet despite these challenges, opportunities focusing performance measurement to improve public management are endless, and the momentum carrying performance measurement forward seems quite strong”* (2007:326).

Then, an important component is to employ an effective change management. This can only be achieved through change in mindsets of public managers thus they should be equipped with relevant skills of targeted reform process. A strong support of the significance of change management in public sector reform has been underlined through a recent study by Melchor covering six OECD countries. According to this study, whatever the targeted and innovative nature of the public sector reform might be, it certainly needs to be backed up with a strategy to manage the change. This aspect is definitive concerning the success and failure of reform initiatives. The six OECD countries which were empirically analyzed in this context were Finland, France, Italy, Portugal, Spain, and Switzerland. These countries have been chosen because they all adopted major public sector reforms in the recent years. Briefly, the results of the study indicate that these OECD countries have been so far miscalculating the importance of change management in public sector reform (2008:34).

Next, the methodological paradigms to be chosen in public sector reform come into process. These can only be effective through taking into account the citizens demands, using underlying strategic management processes to manage complex and

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<sup>3</sup> For further insights the state of strategic management as an evolving scientific field and its significance for complex organizations see Mahoney, J.T. and McGahan, A. M. (2007). For significance of strategic management in public sector see Poister, T. H. and Streib, G.D. (1999).

<sup>4</sup> a dynamic and learning organization prone to change

<sup>5</sup> a manager that can optimally employ strategic management having all the tools and resources for implementation

multilevel interactions, while employing the right resources and where state acts as a strategic manager.

A recent study reinforces the idea that the state should be seen as a strategic manager because “Government can act much like a strategic manager in a conglomerate, not picking industrial winners but creating general capabilities and incentives (Breznits and Zimmerman, 2008: 70). Thus the state’s “main role is the creation and diffusion of dynamic capabilities throughout the “industrial conglomerate” (the overall government mechanism) under its responsibility” (Breznits and Zimmerman, 2008: 84).<sup>6</sup>

Finally, while becoming a strategic manager, the state should be adhering to universally accepted principles of good governance such as transparency, accountability, responsibility, equality among others. Building such an environment for the public sector reform process, the state, then, can compete with demands of globalized world while at the same time increase the welfare of its citizens..

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<sup>6</sup> Bracket contents are the clarifications provided by the author

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