

Chapter 5

Exploring the concept of "strategic agility" for better government

The concept of strategic agility was developed in the context of the private sector and builds on three key levers: strategic sensitivity, resource flexibility and leadership unity. This chapter looks at the interaction between the public governance approach and the private sector strategic management approach to see how the concept of strategic agility can be applied to a wide range of national and institutional settings. It discusses what governments need to do to become more strategically sensitive to emerging policy issues, to better align government policies and activities to shared objectives and the public interest, and to facilitate the timely reallocation of human and financial resources to emerging policy needs. It also discusses effective leadership in times of transformation and how senior executives can create shared visions in the public sector and sustain momentum for reform.

Introduction

This chapter offers a reflection on the concept of “strategic agility”, which provides a framework for exploring the challenges of public sector reform. The concept of strategic agility was discussed at an international workshop held on 10 November 2011 at the OECD, which brought together researchers and practitioners to discuss whether and how the private sector model of strategic agility could be applied in public governance.¹ The summary below provides interesting insights on how to discuss, test and develop the concept of strategic agility for better government. What does strategic agility imply? What has been the experience so far? How does it fit different country contexts and starting points? What effect have the recent fiscal challenges had? What issues need to be further developed? Workshop participants came from a range of backgrounds including SITRA, the OECD Secretariat, academics and country practitioners, to discuss their experiences in improving government effectiveness and responsiveness. This summary is structured around the four main sessions of the workshop and includes direct quotes from participants.

Governments are ready for change: The dimensions of strategic agility

The context of government decision making has changed, and governments are under pressure, not only from the financial and economic crisis. The problems they face are increasingly complex and involve a multitude of actors and stakeholders. Governments are now part of a network in society. They also face an historical adjustment challenge, with the rapid pace of change in their technological, economic and social environments, and with globalisation. The old, hierarchical model of government decision making no longer works. Ministerial silos make it difficult to address more complex, interdependent policy challenges. These complex, systemic and horizontal policy challenges call for innovation in public governance. A framework is needed for enhancing strategic agility in public governance in order to create a proactive, resilient, responsive, efficient and accountable government that can deliver better public services and enhance national competitiveness.

- How can governments and public administrations become more strategically sensitive to emerging policy challenges and opportunities?
- How can public policies be better aligned to shared strategic objectives and the public interest?
- How can human and financial resources be reallocated in a timely manner to emerging policy issues?

- What new frameworks are needed for enhancing strategic agility in public governance?
- How can governments identify and act on the issues that need attention?
- How can resources be moved quickly to address these challenges and other unforeseen situations?
- Can strategic agility be applied across a range of country settings?
- What does government need to do to become more strategically sensitive to emerging policy issues, better align government policies and activities to shared objectives and the public interest, facilitate the timely reallocation of human and financial resources to emerging policy needs?

Box 5.1. The key levers of strategic agility

As presented in Box 1.1, strategic agility builds on three key levers of strategic sensitivity, resource flexibility and leadership unity. The key levers of strategic agility are thus relational, cognitive and organisational, as well as emotional (commitment, pride, motivation). The concept of strategic agility has the potential to help governments act faster and more effectively, creating more openness in society and enhancing the mobility of people and knowledge. This concept can be adapted to the public sector and was used as a framework to develop the *OECD Public Governance Review of Finland*, undertaken in 2009-10. The Finnish government asked the OECD to carry out a review in order to assess its ability to deliver government objectives as well as its preparedness to meet current and future challenges. A particular theme of the review was horizontality within the state administration. Although the Finnish administration had achieved positive results in several areas, some critical remarks that emerged from the review centred on the lack of operationalisation of the government's whole-of-government vision, a lack of collective commitment and incentives in performance management, a disconnect between budget and policy objectives, and silo-based leadership at the Centre of Government and at the political-administrative interface. In response to the review, Sitra, the Finnish Innovation Fund (an independent public foundation promoting societal well-being under the supervision of the Finnish parliament, with its responsibilities stipulated by law) asked the Talent Partners Public Consulting Group to draft a paper for a future governance model for Finland. A second paper, "Mission possible: Agility and effectiveness in state governance", was then commissioned to contribute to international discussion on the topic. The paper notes that the end purpose of strategic agility in the public sector should be greater effectiveness of state governance. While discussing the means, it is important not to lose sight of what we want to achieve.

Building a broad framework such as strategic agility requires some soul-searching about the relationship between government, the central

public administration, the wider public sector and the rest of society, with an examination of leadership, hierarchy, networks, centralisation (or not), risk and innovation in the public sector context. The practical application of strategic agility requires close critical scrutiny from a range of perspectives, including the differences between countries and between the public and private sectors, and the tension between hands-off stewardship and a strong directional centre. Many analysts consider that New Public Management has been overtaken as part of the discussion. However, the debate is far from over on the new approach. Strategic agility has much to commend it, but its implementation may be problematic.

Understanding the challenges and the overall objective. Before investing in a new approach, we need to be clear what the challenges are. Strategic agility yes, but what is the end game? This is not just – or any longer – about GDP alone. There is a growing focus on well-being, exemplified in the OECD's Better Life Index.

High expectations of a renewed public sector. Countries face critical societal trade-offs: growth vs. environmental objectives; fiscal consolidation vs. job creation; preserving resources for future generations vs. addressing inequalities in the short run. These are creating expectations for better governance systems that are able to deal with these contradictions more effectively. The public sector is, in fact, loaded with expectations of an evolution that embraces many virtues: responsiveness, evidence-based approaches, accountability, integrity, a capacity to work across organisational boundaries, to foster innovation, improve learning and sharing of solutions, etc.

The crisis of hierarchy. The crisis of hierarchy, which began in the 1970s, was addressed differently in the public and private sectors. Firms broke down hierarchy and created co-operative arrangements while governments separated management from operations and decentralised authority with strict objectives. Hierarchies do not work anymore – but can the networked approach do any better? This raises a further question: Are governments simply part of a network, one cog among many in the machine? Or do they represent something more, over and above the network and other actors? And if so, what is this role, beyond the old-style hierarchies? Is there a need to (re)invent centres of government and the strategic state (but not in the old hierarchical sense)? Is this a disguised call for (re)centralisation? And, if so, is there anything wrong with that?

The failure of New Public Management (NPM). Policy making and its execution were separated under New Public Management. This has not worked; a new model is required. Do we move away from NPM and toward leadership and a more strategic state? It is important to discard what has not

worked, but if there is to be a new approach, there is a need to overcome the trends of past decades which stand in the way of new approaches, such as management at the expense of policy.

“Everybody is having this [Finnish] experience; the (NPM) idea of separating management from execution has failed.” – Charles Sabel (Professor of Law and Social Science, Columbia University, United States)

After NPM, where to next? We need a governance approach that is dynamic enough to deliver positive and sustainable effects in our societies in times of uncertainty and ambiguity. A systemic governance model based on agility and effectiveness could serve this purpose. The levers that can be used to deliver on a government’s agenda include the management (the activities and processes of government), the system of interactions (engaging citizens, businesses and communities) and the underlying culture of government (values and social behaviour, leadership, levels of trust).

If strategic agility is the answer, how easily can it take root? It currently suffers from an implementation deficit, and no country has fully mastered it yet. It needs to take root in the context of current governance structures that are ill-adapted to the concept. New Public Management has implied devolution, specialisation, autonomy and decentralised solutions to problems. But strategic agility requires a centre.

The importance of leadership. Leadership unity is critical, but may be hard to achieve. Companies find leadership unity hard (although there are large differences between companies). The private sector model is anything but consolidated. Political, as well as administrative, leadership is essential.

“Strategic agility won’t work without a strong centre.” – Guy Peters (Maurice Falk Professor of American Government, University of Pittsburgh, United States)

Moving away from system control, towards system stewardship. No single agent, not even the state, can pretend to know the whole story, or propose a solution for all problems. There is no monopoly on wisdom about what will work. Central government increasingly needs to see its role as one of system stewardship. The nature and outcomes of a policy are often adapted by many different actors working together in the system. System control does not work in this context, so the question is how to establish a system that allows diverse actors the space to develop on their own terms (within a high-level framework of goals). This requires confident central leadership which can embrace a “letting go” approach. System stewardship involves policy makers overseeing the ways in which the policy is adapted, and steering the system toward high-level outcomes.

“We must ask ourselves: what should be consigned to the public governance museum?” – Katju Holkeri (Head of Governance Policy Unit, Public Management Department, Ministry of Finance, Finland)

Addressing central-local tensions in the new approach. These tensions can be observed both in practice and conceptually. NPM promoted a strong form of decentralisation, moving policy implementation and execution away from the centre. But it has not worked. We have been witnessing a reversal of this trend over recent decades toward decentralisation and decoupling management from policy making. Yet the centre cannot, and should not, take charge of everything. How can strategic agility find its place in a system which needs to embrace the sub-national levels as an essential part of the picture? Strategic purpose is needed at the centre, but agility is needed at the local level; the local level also matters because it is close to the citizen. Local governments are, in fact, often more agile than national governments, and may have some lessons to share. How can strategic agility be reconciled with resistance to centralisation, both in federal countries as well as unitary ones?

“Strategic agility is not about decentralisation. You need smartness at the top, better co-ordination, and a lot of action and experimentation at the bottom.” – Mikko Kosonen (President, Sitra, Finnish Innovation Fund, Finland)

Securing both agile adjustments and a long-term view. This is the promise made by strategic agility. But how can the need to maintain long-term policy goals and “credible commitment” be reconciled with the need for rapid, short-term adjustments?

“Public governance projects can be like bush fires, spectacular while they last, but afterwards?” – Carmel McGregor (Deputy Public Service Commissioner, Australia)

The pressure to focus on immediate challenges, and move very quickly. The immediacy offered by information technology and social media, and demanded by citizens is making it harder for governments to focus on the long term. Governments need the capacity to take – and fund – rapid, well-founded decisions, to follow through on those decisions and to adjust course as they go along. The media, social networks and the markets are unforgiving observers of government’s capacity to act fast, decisively and effectively. Governments are required to be agile as well as long term and bring a diverse range of stakeholders along with them. There can be institutional constraints to speed, for example, public sector unions.

"You have to consider what you are going to do when an issue that you haven't anticipated or identified, or on which you were in denial, hits you from behind." – Yves Doz (Solvay Chaired Professor of Technical Innovation, INSEAD)

Failure and risk taking in the public sector. Governments cannot allow themselves to fail – or can they? And, if so, within what limits? How much risk can governments afford to take (the private sector will answer this question differently)? This issue is poorly addressed, partly because of a cultural antipathy to examining past failures, which means that we do not have a clear view of the consistent areas of failure in public policy, on which better policies and a better assessment of risk can be built in the future. Governments are inherently conservative and risk averse, and do not want to fail. The fiscal crisis applies further pressure in this direction. Financial risks are clear, from the events of recent years. But what is failure? If it is defined, then it becomes easier to address risk effectively, through the lessons learnt of past failures.

Innovation in the public sector and moving away from the idea that the public sector does not work. Public sector players can be innovators, and we should look at how innovation can percolate across the public sector (and not only between the private and public sector). It is a myth that only the private sector can innovate. There is a lot of innovation in the public sector, but we do not have any way to measure it, as we do in the private sector, with prices, markets, patents. However, public sector innovation links to the issue of risk and raises the question of financing and how much risk governments can take with public money. Some parts of the public sector do work, very effectively, in a decentralised but linked way, through dialogue and exchange. We need to find ways to connect these "islands of success". We need to support such dialogue in stable, self-improving ways, relying less on hierarchy.

One size does not fit all. Among OECD economies, there is a strong diversity which shapes governance. Countries vary in a range of dimensions: large and small (population and geography); unitary and federal; historical and cultural frameworks; legal systems (continental European civil law and Anglo-American common law tradition); presidential and prime ministerial systems; market economies, with some countries giving the state a much bigger role than others; administrative systems; the role of civil society and social partners; transparency and accountability. With major shifts in the global economy, peripheral countries have quickly become important. The weight of the world's economies and societies now lies outside the OECD membership. The diversity of country settings for the strategic agility debate is consequently even larger than before. Is there really a common core to all countries as a starting point for the application of strategic agility? How

does strategic agility make sense in all of these contexts? How can it be applied in different contexts?

There can be a shared strategic purpose. Countries face common challenges. Regardless of their differences, the capacity to act fast and decisively with well-grounded decisions, to move resources (money and people) to where they are needed, and to persuade stakeholders to support these actions are essential. So is the need for a long-term perspective of where a country wants to take its economy and society. How can a common strategic framework be developed for the highly diversified “conglomerate” that is the public sector? What geographic scope – and perhaps level of diversity – allows for a shared strategic purpose, while allowing room for manoeuvre?

What can the public sector really learn from the private sector? Both the private and public sectors face the same complex, changing and uncertain environment with new technologies. Both involve a community of people with (more or less) shared interests, goals, resources, policies and institutional rules. But the public sector has some distinct features. It has a democratic decision-making process and must take the political cycle into consideration. Accountability (legal/political) is one major private/public difference, which is far more complex in the public than in the private sector. The public sector is also subject to lobbying by interest groups. The stakeholders are many and diverse, giving rise to a multiplicity and complexity of societal goals. Government is subject to legal constraints, for example in recruitment, and is accountable to the legislature and the citizenry. Finally, it has society-wide responsibility, whereas private sector firms have the profit motive and responsibility to shareholders. It can be likened to a highly diversified conglomerate of many organisations, with multiple and competing values, and long gestation times for policies to emerge clearly. The private sector can be a source of good ideas (and has been in the past), but we need to be clear on the specific challenges the public sector faces. Besides, the new private sector models are still fragile. Could the differences between public and private sectors simply overwhelm the similarities?

What can be learnt from cultural differences? Asian countries tend toward the strategic and agile; European countries tend toward the populist and rigid. This is an exaggerated picture, but it offers food for thought. Why do these differences exist? Do they reflect fundamental differences that make it hard to transpose Asian perspectives to Europe? How can European countries loosen up? Focusing on priorities may be part of the answer.

The issues for further debate include:

- Resource flexibility is fundamental to strategic agility, how can it be achieved?
- Leadership unity is also fundamental, how can it be achieved?
- How can a long-term vision be sustained across political cycles?
- What are the impacts of fiscal consolidation on this debate?
- How can the central-local tension be resolved?
- Can strategic agility be applied in different country settings? Is there a shared strategic purpose?

Box 5.2. Finland, Scotland (United Kingdom) and Korea: Concrete examples of agility

In **Finland**, concrete measures have been introduced to build strategic agility into structures and processes. With the aim of integrating strategic policy and resource allocation, the government has drawn up a Strategic Implementation Plan (HOT) with 40-50 key strategic projects grouped under 3 strategic policy pillars. At the beginning of each year the government convenes to discuss what has been achieved under these projects, based on indicators. There has also been an attempt to strengthen the co-ordinating management function of permanent secretaries, with regular meetings of permanent secretaries around the Strategic Implementation Plan. On the administrative side, the government is trying to make the performance management system more strategic, light, horizontal and unified, linking it to the Strategic Implementation Plan. Finally, there is a plan to merge the ministries into one agency, with the same salary system, etc., to improve mobility within the administration. This should affect the cultural lever, in that civil servants will work for the government as a whole rather than for a particular ministry.

Scotland (United Kingdom) has also abolished ministries. It has pursued a commonality of strategic purpose and, at the same time, decentralisation of operational responsibility. However, Scotland, like Finland, is a relatively small country.

Korea is using technology to support agility through its “Smart Korea” vision, which addresses the priorities of education, health and work. The private sector does not want to invest in these areas, so how do small Asian countries survive, in terms of the economy and society as a whole?

Evidence-based policy making and strategic sensitivity

There has been a growing interest among OECD countries in evidence-based decision making, with the rationale that better knowledge can produce better policies and, in turn, better outcomes for society. This process uses solid data and analysis to assess the economic, financial, social and other impacts of regulations and public policies, taking the views of stakeholders inside and outside government into account. At the same time, the rapid transformation and growing complexity of developed societies, and the increasingly uncertain context in which they evolve, fundamentally challenge traditional decision-making processes. This affects the kinds of knowledge and evidence needed to take effective decisions, as well as how those decisions should be taken. The fiscal crisis has added to the challenge, pressuring governments to act quickly in order to reduce the public debt, to very quickly identify cuts to the public sector and public services (both operational and programme expenditure) in support of this, and relegating the long-term view to second place, or even crowding it out. These challenges have given rise to the development of new, more experimental approaches for the development and implementation of public policies by academics in some countries.

- What kinds of evidence and knowledge can and should policy makers use in the future to support and guide their decisions?
- What decision-making processes are best suited to the new environment?

How can governments rise above the noise, heat and dust to identify and act on the issues that need attention, when there is no time to think?"
– Caroline Varley (Head of Programme, Public Governance Reviews, Public Governance and Territorial Development Directorate, OECD)

"Gone are the days when you could first plan and then implement. They are together at the same time; the strategy is emerging." –Mikko Kosonen (President, Sitra, Finnish Innovation Fund, Finland)

There are strong and divergent views on the utility of traditional policy-making processes and the use of evidence-based impact assessment to support decisions. There is a need to draw attention to some important arguments and issues for weighing up structured decision making compared to adaptive processes, against a background in which the public sector and its environment have become very complex.

Understanding how public policies emerge. Public policies have unpredictable consequences, may develop in unpredictable ways and are not always deliberate. Sometimes policies develop as a reaction to actions. For

example, privatisation in the United Kingdom did not start out as a policy because the government was looking for a new model for British industry; rather, it began with the sale of one company, British Telecom, which went well, and so another company was sold, and so on. Effective policy making may therefore not be about identifying a solution and then implementing it, but more about reacting to and exploiting actions, and creating the conditions for the ideal outcome.

Recognising the importance of behaviour in public policy management. We have neglected behaviour and the discipline of behavioural economics. The question then is: what works for whom, where and how? If government wants to influence behaviour, there are limits to what evidence can provide. Behaviour spreads through unpredictable networks (including social networks), and has viral qualities. We must abandon the idea that rationality is the motor of public policy. Rational processes do not work. We must work through motivational and behavioural approaches.

Managing “hairy” goals and “wicked” issues, dealing with complexity and uncertainty. We should set resilient high-level, “hairy” (i.e. unclear) goals and then let the system adapt and find solutions. A strategy is never resilient if it is wholly predetermined. The question is how can high-level objectives be reconciled with incrementalism and adaptation? The complexity of today’s public governance environment is a critical factor. Many public policy issues now fall into the “wicked” category (which combines complexity, uncertainty and value divergence). “Wicked” problems can be an obstacle to strategic coherence. There are no inherently clear, correct solutions, and there is a complex interdependency of processes, structures and actors.

“Wicked (uncertain, complex, divergent) issues are hard to domesticate, they are not rational processes, and the response cannot be too rational.” – Brian Head (Professor, Institute for Social Science Research, University of Queensland, Australia)

Accepting that in a democracy, there can and needs to be incoherencies. This does not mean, however, that at a higher strategic or political level all policies need to be – or even can be – perfectly aligned and consistent. In a democracy, some inconsistency is normal and perhaps desirable, given the need for compromise among different groups, values, etc.

Dialogue is fundamental. Collaborative approaches are vital for resolving complex issues with multiple interests. A top-down approach does not work effectively in this new environment. Effective mechanisms are needed for collaboration, co-ordination, co-operation, dialogue. How can a truly connected government be achieved? Mechanisms must be created for sharing knowledge, for example, through “boundary” or “bridging”

organisations that can link knowledge and expertise from government, industry, non-governmental organisations, citizens and knowledge institutions. Putting all of the (very different) actors around the table will change not only how decisions are made, but what needs to be decided. Capacity is needed to engage in a process (not a short-term one) of engaging citizens, businesses and society, in a real and inclusive dialogue about the future, beyond short-term needs. Society is ambiguous in its ideas and its goals. How can governments capture and make sense of this?

Finding the right instrument for different problems. Governments use different instruments for approaching different types of problems: laws and regulations, market-based systems, persuasion and education, partnerships and networks to create consensus, and self-regulation. Given the limits of traditional, top-down regulatory instruments, the challenge is to find the right mix of instruments and strategies across diverse layers of government and society. Tailored approaches may be needed. Each situation is different. Approaches must be adapted to the nature of the challenge and the available partners.

“We must remember the paradox of choice – it’s not helpful to be given too many choices of (public governance) jam.” – Michael Hallsworth (Senior Researcher, Institute for Government, United Kingdom)

Fully fledged *ex ante* and sequential plans stand in the way of adaptivity. The sequential approach to policy making may no longer work. Planning and development of public policies may need to occur in parallel with their implementation. The ability to judge correctly whether it is possible to plan, or not, becomes key. Within the public sector, the Finnish educational system is a good example of how a successful policy can grow from a series of discrete actions – taken to respond to a persistent public failure – without an *ex ante* plan or vision, that are adjusted and improved over time. Solutions come from a trial-and-error approach. Adaptivity is essential – for example, in regulation, if there is no adaptive strategy, it will fail, as people adapt to regulation and create strategies to evade it, causing the system to collapse. A systematic process is needed for continually improving management policies and practices by learning from the outcomes of previously employed policies and practices. In active adaptive management, management is treated as a deliberate experiment for the purpose of learning. “Adaptive management” can help support innovation through “learning by doing”, through rapid iterative adjustment. This is particularly useful where formal experimentation is impractical (as with the public sector). However, it does require trust among partners.

“Strategy is not resilient if it is all predetermined.” – Mikko Kosonen (President, Sitra, Finnish Innovation Fund, Finland)

The traditional evidence-based approach is under pressure, and works better in some cases than in others. First of all, it must be institutionalised to be effective, and requires high-quality collection and storage of good data, well-trained specialists with good analytical skills, and political support for rigorous evaluation. It seems to work best where programmes have been relatively settled over time, and where “fine-tuning” based on evaluation can be carried out. Here, the insulation of the public sector can support serious research and knowledge management. Evidence-based policy making also needs to be broadened. There is a place for systematic research, but it needs to sit alongside the soft knowledge carried by civil servants and others. Impact assessment is a necessary, but insufficient, condition for getting it right. It is less influential when governments are not open to broad evidence-based debate. There is also a risk for evidence-based policy to become “policy-based evidence” in highly political or controversial matters. Moreover, *ex ante* evidence-based policy making lacks the strategic analysis of mistakes. Instead of evidence-based policy, it perhaps makes more sense to refer to evidence-informed policy, given that other factors, not the least politics, influence policy. In conditions of uncertainty, politics is more, not less, valuable than evidence. At the least, evidence-based policy making is not sufficient to pull decisions through effectively.

Evidence-based policy making is on the face of it not well suited to crises. Crises require rapid decision making and leave no time to gather evidence. Information overload can stand in the way of the need for leaders to make decisions rapidly and on their feet. What do you do with evidence when events move very fast? In fact, is traditional regulatory policy, with the emphasis on *ex ante* impact assessment, even compatible with speed and strategic agility? What evidence is needed when events accelerate, and how can decision making be adapted? It can be difficult to know what to do with the huge amounts of information that are generated by classic evidence-based processes, especially when decisions need to be made quickly to respond to events.

“Impact analysis is a powerful process, but what if there is a need to move very fast?” – Nicolas Wallart (Chief Regulatory Analysis, State Secretariat for Economic Affairs, Switzerland)

Taking the long view with evidence remains essential. There is a need to stand back from this apparent conflict between traditional and adaptive approaches, between speed and reasoned processes, and consider how the careful *ex ante* gathering of evidence over time might support the early detection of risks, and possibly forestall the very crises that prevent a considered evidence-based response. The infrastructure, transport and network sectors, for example, require a long-term and evidence-based perspective on policy development. Thus, even in the modern, complex,

fast-moving environment, there is an important and necessary place for evidence-based approaches. How can decisions taken by governments under time pressures be well anchored?

Impact assessment remains a fundamental tool for cost-effective policy making. Structured approaches such as regulatory impact analysis (RIA) remain useful and relevant, allowing politicians and public servants to consider all of the available options. It should also be kept in mind that regulation is a huge cost for the economy and society. Over-regulation and ineffective or poorly designed regulations are negative to enterprise and society. They stifle growth, prevent competition, reduce adaptability to technological changes, and alienate citizens and consumers. Making regulation cost effective and fit for purpose remains a challenge which should not be masked by the wider debate.

“If government gets a policy wrong, if it makes the wrong choices, the cost can be considerable.” – Greg Bounds (Senior Expert, Public Governance and Territorial Development Directorate, OECD)

The issues for further debate include:

- Can the apparent contradiction between evidence-based decision making and adaptive, fast-moving approaches, be reconciled? Or is there a fork in the road?
- How exactly can effective and inclusive dialogue be fostered?
- In what way can behavioural and motivational approaches be integrated into public management and policy making?

Creating new growth areas: Government’s changing role

Developed countries face a growing need to create new economic activities and growth areas to replace those that have been lost through structural changes caused by globalisation and other factors. Firms and economic clusters are becoming global, and many traditional value-added activities are being relocated to other countries. Traditional public economic and innovation policies, which tend to be incremental and to favour the *status quo* of established activities, are not adapted to these developments. Research is being carried out on experimental policy approaches that are stimulating a reassessment of the role of government, and how it can promote growth and renewal, including the growth of entirely new economic activities and business ecologies. These new approaches build on long-term public-private co-operation, using knowledge and network facilitation to address specific system failures and bottlenecks hindering the development of new economic and business ecosystems.

- What can government's role be in promoting growth and renewal, including entirely new economic activities and business ecologies?
- To what extent should governments "pick the winners" and drive growth from the top down, and to what extent is it the government's role to create an enabling environment and remove obstacles to growth?
- Is there an approach that combines top-down transmission of policy proposals and bottom-up proposals from the business sectors, and what is the role of government in such an approach? (This aspect is linked to the "resource fluidity" component of strategic agility.)

There is a need to tap into new sources of growth and to rethink the traditional attitude of leaving it to the markets and the private sector. A range of factors have been identified for reshaping thinking about growth, including the need to generate a "hunger" for growth, the local dimension, a changing role for the state, and public-private partnerships.

"We need ecosystems to stimulate enterprise." – Dermot McCarthy (Former Secretary-General of the Government and Secretary-General of the Department of the Taoiseach, Ireland)

Effective public governance as a means to an end. Public governance is not an end in itself, but a necessary condition for sound and sustainable growth and social well-being.

Accepting the powerful "emotional" element to promoting growth. In post-World War II Finland, for example, there was a "hunger" for success, for a better life. This hunger can be seen in Asia today, but seems to have diminished in Europe. Are we prisoners of our own success? How can we reignite this passion for further growth and renewal? Doing so will require leadership, especially in rich countries where the passion or hunger does not come as naturally as it does in poorer ones.

Not relying (overly) on the private sector to generate growth. The prevailing view in many societies is that it is up to the private sector to create growth, but this is not happening to the degree needed: we need a new approach.

Not relying (overly) on the private sector to generate employment. Creating jobs in the private sector may not be sufficient to solve the problem of high unemployment. Although it is very important, today, globally competitive private companies have become so productive that they employ fewer people. One of the largest areas of potential new economic activity is through the reform of the public sector itself. Devising a well-functioning health or education system, for example, can lead to the development of new services and other economic activities.

Identifying what works to create new economic activities. A “neo-corporatist” approach can bring together private and public sector actors in informal groups to focus on developing key sectors and build a set of subtle structures to encourage growth. This happened in Finland in the 1990s. However, these structures need to adapt to new conditions, such as greater volatility and openness. Otherwise, the “Baldwin effect” takes hold, whereby a structure induces change in the environment but does not itself adapt to the new environment. Persistent public failures can trigger pockets of collective innovation.

Defining the areas where we need to build public sector competence and benefit from private sector insights. This should not be tied to particular firms or actors. We need to be able to continuously monitor needs and adjust what competencies we need to build, and with which actors. Broadening the competencies of civil servants is important. Civil servants need different competencies in order to have a better understanding of markets and society. There may need to be more mobility between the public and private sectors to achieve this.

Public-private partnerships merit further attention. Firms generate information on their competencies for their interactions with other firms, setting milestones and continuously monitoring. Governments can build on this, without creating additional bureaucracy or burden, to identify partners for building capacity. Public-private partnerships are no longer just an exchange of goods and services, but a collaboration and exchange of ideas and solutions as well.

Adjusting our system of economic beliefs. Our system of beliefs for “how the world works” is changing. Previously, the market was the main governance tool (the market knows better), so the issue was how to get the “framework conditions” right for the market to do its work. The crisis has thrown this belief into question.

Adjusting, in the light of this, our view of the role of the state. Some insights are emerging in the economic literature about the new role of the state, for example as a regulator of the structural conditions of growth; as an investor capable of directing technical change; and as a guarantor of certain public goods that may be produced in a decentralised way (for example, a reduction in carbon emissions, trust, security).

“The state can be seen as a regulator of the structural conditions of growth.” – Joaquim Oliveira Martins (Head, Regional Development Policy Division, Public Governance and Territorial Development Directorate, OECD)

Taking into account the fact that innovation is pro-cyclical. This is not optimal, so it is an area where the state could invest and direct technological change. For instance, a carbon tax is not enough to promote green growth if production in the green economy does not keep pace with production in the brown economy. It needs complementary actions, such as R&D subsidies.

Developing a more sophisticated framework for investment and development. For example, infrastructure is needed for growth. The bottlenecks – and the interactions between them – need to be identified.

The importance of policy coherence for growth. Another way the state can promote growth is to ensure coherence and complementarity of policies through better co-ordination, preventing the unintended effects of one policy from causing another policy to fail. Such co-ordination mechanisms can also help improve the content of policy itself.

Ensuring that the growth trail includes the regional or local level. It may be easier and more effective to begin by focusing on developing new growth areas at the local or regional level, for example in rural areas, than to focus on the national level at the outset. At the regional or local level, a small improvement can make a big difference. It is also easier to experiment (implying the risk of failure) at this level than at the centre. It is therefore at the level of citizens in their local environment that change can be encouraged most effectively. With globalisation, regions now have access to global markets that were previously closed to them. Also, it is useful to consider assets in a decentralised context – for example, buildings and transport systems – looking for local solutions. Nonetheless, local solutions will not provide all of the growth answers.

“Cities are more agile than national governments. Why? And what can be learnt from this?” – Bruno Lanvin (Executive Director, eLab, INSEAD)

The issues for further debate include:

- How can the hunger for success be reignited?
- How can we identify more systematically what works in creating new economic activities?
- Do we need to adjust our economic beliefs, and, if so, how?
- How can we tap into the sub-national growth potential?

Box 5.3. Ireland: Government's changing role

Faced with a multi-faceted economic crisis, Ireland used public policy to create growth conditions through fiscal strategy, restoring cost competitiveness, addressing structural problems, renewing strategy for foreign investment and focusing on national business development. At the same time, it restructured the public sector in terms of pay and size. With a framework called "ecosystem for enterprise", Ireland's industrial policy engages with strong sectors and subsectors in Ireland and seeks to lever the networks of information and assessment shared among enterprises. These firms may compete at a global level but co-operate locally and informally to create synergies and build capacity in the labour market. New priority areas for fostering growth include developing a regime for accessing existing intellectual property, encouraging venture capitalists to bring expertise to Ireland, facilitating spin-outs from the research community as well as existing companies, engaging the Irish diaspora, and attracting smaller high-potential companies for foreign investment. The public sector is also collaborating with firms to find innovative solutions to social needs, focusing on healthcare for the elderly, the "smart city" programme and the green economy. However, there are some constraints on the capacity of the public sector to respond: funding for public services, a lack of trust in government, policy and regulatory failures, etc.

Effective leadership in times of transformation: Motivating change in the public sector and beyond

Leadership is critical to a country's ability to adapt to changing circumstances and to find strategic solutions to complex inter-sectoral public policy challenges. Public sector leadership can extend beyond public organisations to encompass the private and civil society sectors. However, the government is the only institution that bears a responsibility for the fate of society as a whole – and its renewal. Public sector organisations can, and need to, take the lead in facilitating or "orchestrating" change in broader co-operative networks and systems.

- What are the demands and opportunities of an extended public sector leadership role?
- How can shared visions be created, and momentum sustained?
- What precisely is the role of leadership in creating collective commitment within and beyond the central public administration?
- How can public management systems support systemic reforms?

There seems to be strong agreement that collective leadership and a strong and motivated civil service are critical to successful change, whilst pointing to some of the dangers of a closed leadership.

Strategic agility depends on leadership unity and collective commitment. This must be the starting point for building strategic agility. Everyone needs to be behind a single agenda – then it is possible to operationalise it. This agenda is not necessarily clear at the start, and may need to be “co-created” by the leadership group. Collective leadership can also be a mechanism for giving voice to those who may be farther removed from the centre (e.g. line ministries).

Taking the first collective leadership step is key. It is not necessary to know the second step, it is the process which has been set in motion that matters. Building the leadership group, to orchestrate and facilitate the next steps, is what is initially needed.

“Focusing exclusively on past failures is the wrong approach, it is the strategic and forward vision that matters.” – Sir John Elvidge (Former Permanent Secretary to the Scottish Government, United Kingdom)

Making sure that collective leadership does not deteriorate into a closed oligarchy. Building a collective vision at the top through a leadership group runs the risk of generating an “oligarchy” or centralised collective leadership operating too far outside of democracy. Leaders should be kept “uncomfortable”, for example through constant (and public) review of results, and should be held accountable.

Indicators keep the leadership on its toes. Collective leadership should be a prelude to an institutionalised system of reviewing results, looking at diverse solutions, pooling knowledge, correcting the original path, etc.

Avoiding over-centralisation and the idea that the centre can achieve everything alone. Strengthening the top does not mean centralisation: there is still a need for action at the bottom. Other parts of the public sector, and beyond, need to be brought in.

Ensuring that an effective supporting senior civil service is in place. The collective top leadership needs to be supported by a well-functioning senior civil service.

Developing the skills and competencies in the civil service for strategic agility. Strategic agility requires different skills and capacities than those we have now – for all civil servants, not just the senior ranks. These include communications skills, the ability to co-operate across different organisational boundaries and levels, thinking “out of the box”. This will have implications for recruitment and training. We also need to look at the skills needed for line managers in a new environment – the ability to motivate, for example. Human resources management practices need to be adapted to take a long-term view, with strategic workforce

planning. Human resources practices across the public administration should be coherent.

“Civil servants need to be “socialised” into their role for the public sector, as they used to be in the past.” – Zsuzsanna Lonti (Senior Project Manager, Public Governance and Territorial Development Directorate, OECD)

Trusting the civil service workforce, motivating them. An agile organisation requires that we trust our workforce. The old model of socialisation is important – but how can it be balanced with flexibility? Reaching out to the public, or even other ministries – for example in consultation, is a challenge to civil servants. It even challenges their deep identity. They take pride in their expertise, which can reinforce the “silo effect”. How can public servants be incentivized? It is clear that in a modern public administration we need more than economics, management theory and law: we need psychology, behavioural science and political science as well.

“Individual minds and hearts need to be won over if you want to make a change, especially if there is no crisis to force this.” – Ehud Praver (Head of Department for Policy Planning, Prime Minister’s Office, Israel)

“Nurture self-worth, self-confidence through a sense of community and identity.” – Juhani Lemmik (Advisor, Strategy Unit, State Chancellery, Estonia)

Box 5.4. Finland, Scotland (United Kingdom), Australia and Estonia: Rethinking leadership

Finland provides an example of how to promote systemic change in an agile and networked-based way through the initiative “Transport Revolution”. This initiative brought together four ministries, regional authorities, private companies, municipalities, and research institutes to reform public transport. Tackling the various challenges involved in the reform – making needed investments, reducing emissions, limiting urban sprawl – in the traditional, administrative way would have been too slow and cumbersome. An independent group of 30 carefully chosen people drawn from the above-mentioned stakeholders was formed to come up with ideas and a new approach based on concrete actions. The starting point was a political decision on basic service levels, for which criteria will be established. The new strategic planning model brings together the requirements of land use, housing, transport, services and business. Public procurement will also change: instead of products and activities, solutions and service levels (with clearly defined indicators) will be procured. Users will participate in the planning, implementation and development of these solutions. In one year, the way of thinking in ministries and organisations has changed in Finland, and actions are moving forward. Having the right combination of people in the group was crucial to making this happen, as was having the backing of the four key ministries and their permanent secretaries.

Box 5.4. Finland, Scotland (United Kingdom), Australia and Estonia: Rethinking leadership (*cont.*)

Scotland set up a single leadership group to develop a reform strategy for the public sector. This group included the leaders of public sector organisations, including universities, the police, etc. The group, of about 60 people, was limited to leaders only; they were not allowed to send their deputies. They were asked to agree to form a single leadership group, a coherent community with shared values and objectives rooted in a public sector value set. A new government came in soon after, and there was political consensus to abolish individual ministries; Scotland thus moved from a federal administrative model to one trying to function as a single organisation. (However, an attempt to achieve this with a coalition government was not successful.) A single set of strategic objectives for the country was developed; however, given the need to move swiftly, civil society was not consulted. This included a statement of national purpose and 50 desired national outcomes, many of which cannot be achieved by government alone. The Centre of Government, arm's-length bodies and local governments agreed on a single strategic framework in exchange for greater operational freedom in delivering the strategy at local level. While it is too early to tell whether this has had an impact, some modest progress has been made. Despite changes in the composition of the civil service leadership team, it was decided to retain the concept; the shared statement of purpose enabled innovation, exploration and experimentation. Overall there were painful adjustments. It was important to move quickly, so as to prevent counter forces from building up. A "new narrative" of the role of the civil service was created at the same time: to orchestrate, facilitate, create networks. No other player can do this.

In **Australia** a new federal financing agreement was put in place in 2008 to provide greater resource flexibility, replacing specific-purpose payments with six national agreements. Outcomes, objectives, indicators, roles and responsibilities are negotiated on a partnership basis among levels of government. While states are still largely responsible for their budgets, they collectively agree to address the economic and social challenges of the entire country, not just those of their state. This is overseen by the Council of Australian Governments (COAG), and the general consensus is that it has led to more dialogue. Shared delivery arrangements for cross-sectoral policy have also been established. The recruitment of more agile people was also carried out. Values had to be recast. The key was to secure a common agenda at the top, and coherence at the bottom.

One of the reforms in the Australian public administration, "Ahead of the Game", is based on 4 pillars (deliver for citizens, strong leadership and strategic direction, increase the capacity of the workforce, and operate efficiently and to high standards) and 32 initiatives. Leadership is at the heart of the reform, and comes from the staff. Work has been carried out to simplify the public service values and develop a single Australian public service vision. Greater clarity was given to the role of secretaries, which includes stewardship. To build leadership throughout the system, the group "top 200" was created, helping form collaborative relationships across ministries. Greater attention has been paid to preparing succession, and spotting talent early on.

Box 5.4. Finland, Scotland (United Kingdom), Australia and Estonia: Rethinking leadership *(cont.)*

Following the OECD's public governance review, Estonia has implemented some of the recommendations on making the government work more as one unit. The new government programme was built around 16 policy areas rather than around ministries. Deputy secretary-generals come together regularly to discuss the challenges of policy development and implementation in their respective areas. This is also part of a wider Senior Civil Service Programme, which seems to be working well. Estonia is also trying to monitor societal indicators, to provide information to citizens on the direction the country is heading – outside experts provide analysis and feedback, indicating whether they think the government is on the right track. The results are discussed in the media. There is also an attempt to make policy making more open to outside stakeholders, providing information on government initiatives on a single portal to gather responses at an early stage. Civil servants need to be trained in managing consultation and motivated within a broader context of reconnecting with citizens and communities.

The issues for further debate include:

- Can the leadership approach deployed for small countries such as Finland or Scotland be made to work for larger countries?
- Is it possible to build a strong collective centre with shared values, and if so, how?
- Can individual ministries be abolished and merged into a single “government office”, even in larger countries?
- How can collective leadership be prevented from deteriorating into a closed oligarchy?

Conclusion

The key conclusions from these discussions are that:

- The complexity, fast pace of change and increasingly “wicked” problems faced by governments demand a new approach, but not a constraining new paradigm. NPM has had its day.
- There are differences between the public and private sectors that must be taken into account when applying strategic agility concepts. One key difference, for example, is the degree to which the public sector can take risks. Can governments experiment and fail?

- Rather than evidence-based policy, perhaps we should focus on evidence-informed policy. *Ex ante* evidence-based thinking is difficult to apply in a context of uncertainty.
- Dialogue cannot remain internal within a ministry or even a government; it has to bring in the full range of societal voices and expertise to produce effective solutions.
- Some of the best policies do not start from a concrete vision and plan, but rather arise organically from a series of discrete actions to tackle a specific problem. To solve higher level problems we may need an imprecise, “hairy” vision and resilient goals, combining a commonality of purpose with operational freedom to find solutions.
- Leadership is a critical factor in our complex environment.
- The local levels need more attention, as teachers and as participants in the ways of strategic agility.

This still leaves a significant set of issues for further debate:

- What advice can be given to countries that have been caught short (no strategic agility capacity in place before the crisis hit)?
- How can confusion between agility and constant change to fundamentals be avoided? How can we ensure that strategic agility is not subverted to focus on constant adjustments at the expense of long-term stability of purpose (especially in a public sector context where the electoral cycle is an open invitation for incoming governments to start over from scratch)?
- Is it possible to reconcile an adaptive approach with evidence-based decision making?
- How can accountability and transparency be clarified and strengthened in the new environment? What implications does strategic agility have for transparency and accountability, both of which are very important in the public sector? Can accountability and transparency be taken for granted by any country?
- Does country size matter when seeking to apply the concept of strategic agility, and, if so, how? Can the experiences of small countries be replicated in much larger settings?
- Can strategic agility work in federal countries? If so, how?
- How can strategic agility be applied to developing countries? How does this make a difference?

- How can strategic agility be applied to non-democratic systems?
- How does strategic agility work in the context of globalisation and supranational institutions (such as the European Union), as countries today are not isolated islands in the wider environment?
- Does strategic agility raise issues relating to the electoral cycle and the functioning of democracy?

“We must tell ourselves and remind ourselves that it is mission possible, there is reason to be optimistic.” – Seppo Määttä (Managing Director, Talent Partners Public Consulting, Finland)

Notes

1. The workshop agenda and list of participants are available at: <http://goo.gl/XYQYOg>.

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