7

Arguments for better strategy

7.1 Introduction

Just as there are many different sorts of 'strategies' and 'plans' in life and business, there are almost as many definitions of strategy. Concepts of strategy, and to a lesser extent structure, are applicable to management at most levels in most organisations, with the scope for strategy and associated structuring diminishing down through successive organisational layers. The board and senior management do not have a monopoly on strategic thinking in an organisation, but they do have responsibility for the highest level of strategic thought focused on achievement of the purpose of the organisation (as determined by shareholders) and the broad deployment of resources to achieve this purpose.

What is strategy? A common theme in latter-day writings is that strategy is about 'winning'. Robert Grant's opening words to his book on contemporary strategy analysis are that strategy is about winning; he defines it as 'the unifying theme that gives coherence and direction to the decisions of an individual or organisation' (1995, p 3).[1] Grant outlines a number of features that contribute to success, including goals that are simple, consistent and long term; a profound understanding of the competitive environment; the objective appraisal of resources; and effective implementation. He places the concept of competitive advantage at the heart of the notion of strategy.

1 Grant helped popularise the resource-based view of the firm.

Different writers emphasise strategy's different dimensions. Roger Martin defines strategy as 'the making of an integrated set of choices that collectively position the firm in its industry so as to create sustainable advantage relative to competition and deliver superior financial returns' (Martin 2013). Martin elaborates on the necessary choices within the broader concept of strategy as follows, 'It is one integrated set of choices: what is our winning aspiration; where will we play; how will we win; what capabilities need to be in place; and what management systems must be instituted' (Martin 2014). And, with AG Lafley, he adds the notion of playing to win, not simply playing to play (Lafley & Martin 2013).[2] Martin goes on to break the practice of strategy down to the idea that 'Two choices determine success: the where-to-play decision (which specific customers to target); and the how-to-win decision (how to create a compelling value propositions for those customers)' (Martin 2014).

In turn, Michael Porter focuses on competitive advantage and positioning and the central role of the customer 'Competitive advantage grows fundamentally out of the value a firm is able to create for its buyers' (Porter 1985, p xxii). Rita McGrath (2013) emphasises the transient nature of competitive advantage, while Michael Lanning (2000) also places the role of the customer at the centre of strategy with his concept of the value delivery system. For his part, Henry Mintzberg sees strategy as the glue that holds an organisation together, enabling a consistency of decision-making throughout an organisation (Mintzberg 1979). What all of these writers recognise is that strategy creates organisational purpose and cohesion.

Lafley and Martin also ask, what is winning? This question provides content to Martin's notion of a winning aspiration and, in turn, they ask why it is important to make winning an explicit aspiration? They also point to the need to win with those who matter most, noting the risks of marketing myopia and the pitfalls of a product or technology focus at the expense of meeting the needs of customers. They observe that organisational winning might be expressed in any number of ways and briefly examine the mission statements of a small number of leading consumer marketing companies – Starbucks, Nike, and McDonald's – concluding that these companies don't just want to serve customers, they want to win with them (Lafley & Martin 2013, p 35). They argue that winning is hard, it takes hard choices, dedicated effort and substantial investment, and that, when

2 This concept is relevant to the public service as it could be argued to be 'playing to play'.

companies set out to participate rather than win, they will inevitably fail to make the requisite hard choices. Lafley and Martin ask the reader to imagine the likelihood of winning without explicitly setting out to do so. The following tests this literature by applying it to public service activity using the criterion of the public interest.

The history of the development of corporate strategy is of interest in a public sector context because of the changing focus of the corporate strategy literature and practice over the last 50 years, and the impact of economic conditions on this evolution. It is also of interest because of the parallels that can be drawn between public and private sector responses to the same, evolving environmental pressures. It is of particular interest because, despite the different paths taken, the content of strategic management in both sectors consolidates around the notion of people as the major competitive asset, and innovation as the means of staying on top of increasingly fast-paced change.

Strategy development and implementation is not easy, as illustrated by Bob Garratt's board-driven view of strategy, which indicates the scale of the challenge:

> I take from the Greek the key concept that strategy is the broad deployment of scarce resources to achieve a purpose. This is the role of the board of directors. This is a concept based on having a suitably varied group of independent thinkers around the board table capable of scanning the murky horizons of continuous change in the political, physical, economic, social, technological and trade environments, and then linking the data in broad deployment terms to deliver the organisation's fundamental purpose – the reason it exists. (Garratt 2010, p 8)

In business terms, in order for an organisation to achieve its fundamental purpose, it must locate an industry (or industries) where conditions are favourable to its goal and it must attain a position of advantage vis-à-vis its competitors that allows it to earn its target return on capital. Whilst the choice of industry is largely a given for the public service, it faces competition for influence and its services across the board, making notions of competition and competitive positioning entirely relevant.

The terminology employed in the following discussion of the public service as a competitive enterprise describes public sector activities as the industry of public administration. In standard industrial organisation terminology, individual businesses compete with each other in markets, where buyers and sellers are engaged in exchange. The sellers that compete for buyer attention for particular goods and services are collectively called the industry, where the boundaries of the industry are defined by the substitutability of their products in consumption. Gaps in the chain of substitutability in consumption lead to the definition of different markets and industries.

I describe the collection of activities of the public service as the industry of public administration, recognising that there are a number of interrelated markets in which the public service competes for influence and business, and differing degrees of competition faced by the public service in these separate but linked markets. In general, this framework can be used to analyse how individual suppliers might best position themselves to 'win' in their markets, and also how the organisation and competition amongst suppliers in any market affects the nation's welfare.[3] The focus of Chapters 7, 8, and 9 is primarily on the former, and Chapter 10 addresses the latter with a discussion of public policy.

Further, in describing public service competition in these markets, I focus primarily on the government as the customer but acknowledge that value propositions need to be delivered to other players in the value chain. The public service competes directly for the business of government – for example, the provision of policy advice and management and delivery of government services – but also competes more broadly for influence in the community, both to enhance its prospects of winning more government business, and to improve the profile of government administration.

7.2 The concept of strategy

7.2.1 The management century and the development of the tools of strategy

7.2.1.1 The management century

Walter Kiechel provides an insightful interpretation of the management context within which the development of the concepts and tools of strategy have taken place (Kiechel 2012). In a review constructed around the ongoing tensions between the two streams of thought in this field – the

3 For further discussion, see Caves (1967).

humanist and the numerist streams – Kiechel describes the 20th century as the management century, dividing it into three parts. He describes the period up to the Second World War as one of 'aspirations to scientific rectitude'; the second, from the late 1940s to a high point around 1980, as one of 'managerialism's good feeling and widespread public support'; whilst the third, from the 1980s up to the present day, as marked by 'a kind of retreat into specialisation, servitude to market forces and declining moral ambition'.

In describing the evolution of management thinking, Kiechel traces the emergence of systematic strategic thinking in the business world to the establishment of Boston Consulting Group by Bruce Henderson in 1963, the adoption of the term corporate strategy, and Henderson's development of the building blocks – the experience curve and the growth-share matrix – all underpinned by an analytical passion to take a sharp pencil and stopwatch to every aspect of a company's operations. A lengthy period without recession in the United States was disturbed by the oil shocks of the 1970s, and an accompanying economic malaise that Kiechel describes as ending the triumph of managerialism.[4] An intense period of change set in: high levels of inflation, the march of computer technology, and a lively market for corporate control as the stock market heated up. During this period, the era of humanist managerialism – one in which the corporation was regarded as a social institution in which the capacity and potential of manager and employee alike were to be respected – was confronted by a growing focus on the shareholders and the creation of shareholder wealth.

Kiechel observes that for the next 30 years – up to the present – the numbers-driven push for greater profitability and the cry for more respect for the humanity of production coexisted in uneasy tension. He cites the emergence of the re-engineering movement, which used the latest information technology 'in a turbo-charged push for efficiency and competitiveness', but which was later discarded as a management fad gone horribly wrong as an example of this tension. Kiechel paints a picture of growing disarray amongst the humanists who were unable to identify the practices that would bring out the best in employees, in contrast with

4 This observation – that managerialism's triumph ended in the 1970s – sits uncomfortably with its discovery by the public sector around the same time.

strategy and the numerical approach to management, which had a clear paradigm and set of frameworks developed in the first half of the 1980s through the work of Michael Porter.

Notwithstanding this disarray, Kiechel notes the emergence of two themes from the humanist side during this period, one of leadership and the other of innovation. He observes that the theme of leadership has fallen somewhat by the wayside as no consensus has emerged on exactly what constitutes a leader, but innovation is less controversial as both humanists and numbers people recognise its importance.[5] Whilst noting the ultimate difficulty of determining 'one best way' more generally when it comes to human endeavour ('no one yet appears to have been able to automate the invention of the new'), Kiechel ends on the optimistic note that management is, finally, focusing on how to make humans and their organisations more effective.

7.2.1.2 The emergence of corporate strategy

The emergence of corporate strategy in the 1950s and 1960s followed the long postwar period of unprecedented stability and economic growth, which was conducive to the expansion of large, global, and diversified enterprises. Companies confidently planned for growth, actively seeking economies of scale and scope through expansion into multiple markets. Growth through diversification followed, with a particular focus on conglomerate mergers enabled by the development of long-term planning tools and the emergence of techniques to make a 'scientific' choice of the products and markets.

The private sector enthusiasm for planning was paralleled in the public sector as governments and public authorities undertook long-term economic, social and investment planning. Tools were developed and applied in the public sector – such as cost–benefit analysis and linear programming – and were accompanied by the development of discounted cash-flow analysis and econometric modelling, providing a new array of tools to support 'scientific' planning for growth. This was the golden age of investment in public infrastructure.

5 Kiechel does not consider the part played by organisational structures in providing leadership, only the qualities of individuals. This is consistent with the American literature in this field, which conflates the role of the board with senior management and sees the CEO as the primary source of organisational leadership and inspiration.

By the mid-1970s, however, circumstances had changed for the private sector, with evidence accumulating that the expected synergies from diversified enterprise, the strategic foundation on which much corporate expansion was based, were not being realised. In addition, the first oil shock of 1974 and the associated growing macroeconomic instability made redundant the essentially 'linear' forecasting techniques on which companies (and governments) had relied. Slower, as well as more uncertain, economic growth also meant fiercer competition and smaller margins in the private sector, and pressures on revenues in the public sector. The incentive for business to concentrate on what it did best and withdraw from the rest was strong and the focus fell onto competitiveness within a prevailing paradigm of 'sticking to your knitting'. As public sector infrastructure needs were seen to be largely met, governments turned their focus to social problems and encountered the policy challenges documented by Horst Rittel and Melvin Webber (1973). So, whilst the bigger end of the private sector consolidated around what they did best, democratic governments refocused their efforts in areas requiring new structures, tools, and skills.

The consequence for the private sector was that top management began an evolutionary process of reconceiving its role in developing the strategy, moving away from planning for growth and expansion in the 1960s to portfolio planning in the 1970s, to sources of competitive advantage within the firm in the 1980s, and to internal sources of competitive advantage in the 1990s. Grant notes:

> Work on the 'resource-based view of the firm', and organizational competences and capabilities helped shift the focus of attention of strategic management toward dynamic aspects of competitive advantage, the importance of innovation, and the central role of internal processes within the firm. (Grant 1995, p 16)

In charting the progress of strategy's development as a means of understanding the foundations of business success, Kiechel describes its evolution in terms of focus, tools, and people (2010). This evolution – of focus and development of tools from the 1960s through to the present decade, could be condensed to the following:

- costs, competition and competitors (a focus on competitive positioning in markets)
- the value chain and value-delivery system (a focus on the customer and value-creating activities)

- shareholder wealth and financial management (a focus on finance and delivery of shareholder value)
- competencies, processes and capabilities (a focus on people and dynamics of organisational behaviour)
- time-based behaviour (the notion that speed of activity was critical)
- the resource-based view of strategy (based on internal and external 'resources')
- three versions of strategy as people (people as the critical resource for innovation and growth, networks, and private equity where 'the people' are the partners of private equity firms).

That progression has, however, been neither linear nor constant in impact, and nor have any of the 'tools' been completely replaced by another. Indeed, all of these tools would find a use today on their own or in tandem. In addition, there have been other contributors to the strategy evolution, such as the quality movement and business process re-engineering that have similar claims for inclusion on this list. The list's value is as an indication of the steady evolution of focus for businesses advised by large consultancy firms, from competitive positioning in markets, to capturing customers through the creation of value, to the internal focus on people.

What this represents is a continuous search by the consulting community to find measurable models and sources of sustainable competitive advantage that could form the basis of lucrative consulting assignments and relationships. The preference for measurables – for example, costs and time are clear measurables – superseded the focus on competences, capabilities, and resources. In this light, it is important to maintain a healthy scepticism about the tools and their promoters who emerge from time to time, noting that ongoing academic research about what works, in particular in regard to sustainability, has driven much of the development of consulting tools. The other relevant discipline is that of 'matching' the tools to the prevailing economic and social conditions to see if they fit the times.

This chronology gives limited credit to the notion of new product, market, or technology development, as a preferred source of competitive advantage. This is despite the obvious advantages of success in this field. Kiechel notes this anomaly without explaining it, but it may be associated with the absence of suitable consulting tools by which to 'sell' it. In keeping with the emergence of the focus on people in the strategy literature, and the associated development of the design-thinking literature, the tools may be at hand for more organisations to take the challenge of innovation upon themselves and elevate this to the primary focus of their ongoing business success. There are companion developments in the public sector management literature that give substance to this view.

Kiechel attributes to Porter two of the landmark advances in corporate strategy history, the first being the concept of positioning and the second the value chain. In his development of the concept of the value chain, Porter fundamentally changed the unit of analysis of strategy development. Until the publication of his *Competitive advantage* in 1985, the level at which strategy development was typically undertaken was high-level functional – for example, manufacturing cost, marketing cost, or research and development cost – occasionally resource or capability-based where costs could be determined. Porter conceived of a business as the sum of a set of discrete activities, with the value chain being the organising principle, and with its particular merit being that the concept arrays these activities in roughly the same order as they are done. Activities were conceived of as the basic unit of competitive advantage, being narrower than traditional functions, cutting across organisational units and being what generate cost and create value for buyers. In private sector terms, this involves discrete activities, such as processing orders, calling on customers, assembling products, and training employees (Porter 1985, p xv). The value of this concept was that it provided a framework for understanding how these detailed, discrete activities had to change in order to give effect to the higher order strategy chosen with respect to markets. It provided a clearly linked means to implement the higher order positioning strategy.

7.2.1.3 The position today

Kiechel's framework through which to view the last hundred or so years of the development of management as a formal discipline evolving from supervision to leadership, and the management tension between people and numbers, can also be used to locate the tools and concepts of strategy today. There are a number of elements to this state of play that revolve around management tension and can perhaps best be seen through the position of innovation.

As Grant and Kiechel have noted, innovation emerged in recent decades as a primary focus for organisations pursuing growth. In the 1960s and 1970s, achieving success in the private sector was seen as a matter of choosing products and markets, planning for growth, and taking a ride. In a period of strong overall economic growth where market growth was more important than market share for profitability, this was a sufficient foundation for the success of many businesses. But in periods of slower economic growth, such as was experienced in the 1980s and has been experienced globally over the last decade, competition through innovation offers a more sustainable path to profitability than competition for market share. Moreover, pursuit of innovation is a robust strategy as it can also deliver 'success' in rising markets as well. The issue noted in an organisational structural context in Chapter 6 – how to simultaneously and seamlessly pursue success in established businesses whilst developing the next generation of businesses – thereby comes to the fore in a strategic context.

Clayton Christensen (1997) and Christensen with Raynor (2003) position the challenge of growth through innovation in the mainstream of business literature. This has been followed by an ongoing debate about where strategy and planning sit in relation to innovation and change. The foundations of this debate can be traced back at least as far as an empirical study by Mintzberg and colleagues at McGill University in the mid-1980s of the long-term development of strategy in a number of organisations, leading to criticism of the 'rationalist', 'scientific', view of the strategy-making process.

Mintzberg and colleagues argued that the picture of strategy making that emerged during the 1960s and 1970s, of a top management–determined strategy handed down for implementation by lower-level managers, was a fiction. This led Mintzberg (with James Waters) to distinguish between deliberate, and emergent strategy, where in the latter the process is less structured, more diffused, and the hard line between formulation and implementation is less apparent (Mintzberg & Waters 1985). Mintzberg later argued that not only is 'rationalism' an inaccurate representation of how strategies are formulated, but it is also a poor way of making strategy as it precludes learning. He describes a preferred view of the process of strategy making as crafting (Mintzberg 1994a, 1994b).

Porter countered much of Mintzberg and Waters' argument by pointing out that both corporate and business unit levels contributed to the successful strategic management of an organisation. He described the former as concentrating on whole-of-organisation strategies and playing the critical role of building synergies across business units, and the latter strategising at a market-level. Presented in this way, strategic management in large organisations becomes not so much a question of who does it but, rather, a matter of all parts of the organisation contributing under central direction within their clearly defined domains and varying time frames (Porter 1985). This did not, however, stifle the intense debate that ensued around the capability of the leaders of multi-divisional businesses to plan for their whole organisations, and the related merits of strategic planning.

Grant sought to balance the ongoing debate by arguing that strategy development was a multidimensional activity involving rational analysis, intuition, experience, and emotion, but that to downplay the role of systematic analysis in favour of intuition and vision was to ignore the opportunity to organise and assess the vast amount of information available on a firm and its environment, and deny the opportunity to systematically analyse the reasons for business success and failure and apply the lessons to the formulation of strategy.

This debate, or a latter-day version of it, continues and, in retrospect, much of it is more about semantics than substance (who should do it rather than where the balance should lie and what the content should be called). Indeed, the notion of strategic planning is a convenient whipping boy when the concept as commonly described and practised has no real place in a discussion of strategy. Martin, writing in 2014, points to Mintzberg's position as eminently sensible, in particular his advice that managers overestimate their ability to predict the future and plan for it in a precise and technocratic way, thereby wanting to encourage them to watch carefully for changes in their environment and make adjustments to their strategy as events unfolded (Martin 2014). But he adds his own advice in arguing that this is typically not what managers do, as they use the argument that because the future is unpredictable and volatile, it does not make sense to make strategic choices until the future becomes sufficiently clear. Martin argues this is a dangerous corporate approach leading to 'fast follower'–based choices that will never lead to the creation of unique advantages. He argues for a solid dose of empiricism to be added to the discussion.

In recent years, however, literature has moved on from addressing the issues of how to plan and who takes responsibility for it in a corporate context, to focusing on the organisational and management issues of successfully executing and integrating the exploitation of its present advantages whilst continuing to create new ones. In response, the strategy literature has turned to the relationship between strategy and innovation and a questioning of the continuing value of the concept of sustainable competitive advantage in an age of turbulence and rapid change in corporate markets. These are important issues when considering the application of the strategy and innovation literature to the public sector, along with the reminder from Kiechel (and others) that there is unlikely to be 'one best way'.

McGrath's recent and important contribution to the literature on competitive strategy argues that the separate fields of competitive strategy, innovation, and organisational change were coming together, but the notion on which the field of competitive strategy was based – that of sustainable competitive advantage – was outdated and even dangerous in the face of a rapidly changing environment. She argues that to win in this environment, business executives need to balance agility with stability and that 'to win in a volatile environment executives needed to learn how to exploit short-lived opportunities with speed and decisiveness' providing a perspective based on the idea of transient advantage (McGrath 2013, p xi).

The underlying concept – that advantage is transient – is not new, as much of the evolution of the corporate strategy literature can be seen as a search for sustainable competitive advantage – occasionally giving up and focusing more directly on the end game of making money for shareholders. Nor is the 'solution' new – of the need to balance agility with stability – first being introduced by March in 1991. Michael Tushman and Charles O'Reilly gave an organisational dimension to the concept in 1996, as did Christensen in 1997, and with Raynor in 2003. This latter dimension was complemented by the integrative comments of Martin in regard to innovation and strategy in his 2009 book *The design of business.*

What McGrath did in her 2013 formulation, however, was to lay out how to do it, with the development of her 'strategy playbook' taking a further step down the path of integrating the notions of competitive strategy, innovation, and organisational change, whilst focusing on a dynamic notion of success rather than the static equilibrium concept of the past.

The publication of McGrath's playbook and her criticism of the Porter-based theory of competitive advantage and positioning has opened up a lively debate about the nature of competitive advantage, although much of it ultimately, again, is about semantics. In a 2017 debate in the *Harvard Business Review*, Lafley and Martin claim that 'The death of sustainable competitive advantage has been greatly exaggerated' (Lafley

& Martin 2017). While, in response, McGrath demands flexibility in management, observing that many of the 'jobs to be done' have not changed over the centuries:

> but how that job gets done has changed dramatically. If incumbent companies stay focused on the job itself – rather than on the specifics of how it gets done at this moment in time – they may be able to invent a better way before the competition does. (McGrath 2017)

The study of public sector management addresses a number of points and questions that arise from this discussion of the concept of strategy. Three points of importance can be taken from McGrath's work. The first and obvious one is to recognise the importance of context. Not all industries face the pace of change and short time frames that McGrath describes of transient advantage and on which she builds her approach. In the *Harvard Business Review* exchange, McGrath draws a distinction between a classical strategic setting – one with clearly delineated boundaries, a stable competitive base, no major disruptions, and a strong competitive base that, once established, can be maintained – and one where industry boundaries are blurry, traditional barriers to entry are eroding, emerging technologies are eroding competitive constraints, and environments are unstable.

Certainly, in the period from Federation until the introduction of the New Public Management (NPM) reforms in the 1980s in Australia, the industry of public administration closely approximated the former. The reforms introduced to public sector management in the 1980s, however, fundamentally changed its competitive position after nearly a century (in Australia's case) of negligible competition; and the level of competition has continued to rise. Moreover, changes in the political environment, with the emerging decline and splintering of political parties, and its aftermath, are likely to represent a further major challenge to the influence of the public service. Any such changes are likely to challenge both the policy advisory processes and the content of public policy that the public service has traditionally relied on. The public service has a central role to play in the public interest in avoiding the worst outcomes of the sorts of policy compromises that occur with coalition governments, namely policies that no one supports. This environmental change, should it continue along its present path, is one in terms of its impact on the public service that may well be seen to be, similar in terms to the NPM reforms, some 20 or 30 years down the track.[6]

The second point involves the role of the centre. The need to balance exploration and exploitation (stability and agility in McGrath's terms) brings to the fore the resource-allocation process, both for the way in which resources are first allocated and the speed with which resources are reallocated. Indeed, in McGrath's world, the various operating units in a business become custodians rather than 'owners' of resources with resource allocation an almost continuous process – gone, in McGrath's world, are the dominant formal reallocations of resources associated with annual budget and planning processes, to be replaced by quarterly, even continuous allocations between existing businesses.

This places heavy demands on the centre for a carefully designed, tightly led and managed resource-allocation process. McGrath writes about healthy disengagement: escaping the tyranny of NPV (net present value); freeing up hostage resources; access to resources, not ownership; and proactively retiring assets. Geoff Mulgan agrees with this sentiment, noting that, in the public sector, effective strategy requires money to be liberated from the past for the needs of the future, and writes of the appetite for change and the change margin, but notes that in most governments, this margin is as small as 1 or 2 per cent of spending within a budgetary year, with past commitments and pay increments taking up most available annual resources (Mulgan 2009, p 105; McGrath 2013, p 77).

Whilst the proximate source of competitive advantage can be found in business units with deep customer relationships, as described by McGrath, the ultimate competitive advantage lies with resource allocation and management capability as it drives the balance between the present and the future, with the pace of changing resource allocation being the grounds of competitive advantage. It is not fashionable to argue that sustainable competitive advantage can be built on organisational capabilities or competences, and McGrath's argument aligns very closely with that of Gary Hamel and CK Prahalad who focus on a business's core competences as the best way of competing for the future (Hamel &

6 I return to the question of the role of the public service in a world of coalition governments – in its own interests and in the public interest – in the final chapter.

Prahalad 1994). By identifying the crucial role that the resource-allocation process plays in business success, McGrath links the standard resource-based and customer-driven approaches to competitive strategy.

The third point involves the data requirements of this system. McGrath's resource allocation and management system demands the generation of data to continuously fine-tune the allocation of resources. High-quality data systems and absolute transparency across business unit and corporate levels facilitate the processes. McGrath argues that, in a world of transient advantage, this data can give meaning to the difference between the competitive life of an asset and its accounting life, and the associated incentive to leverage relationships and assets of others rather than invest heavily in own-organisation long-life assets that have a relatively short competitive life. More broadly, this discussion of the concept of strategy points to the need to carefully align it with its context.

Nonetheless, some elements of strategy have not changed. The commonly accepted doctrine that the purpose of strategy is to identify and actively manage the foundations on which a business can be successful remains influential. Clear goals and an understanding of winning continue to underlie this focus, and 'to win' in business, an organisation must be better than its competitors. A business should choose its battleground and actively compete, and the arbiter of victory or loss is the customer, thus, no competitive strategy can afford to be cast in stone. Whilst the notion of competitive advantage should underlie an organisation's strategy, competitive advantage should be conceived of in terms of customers and the people, capabilities and processes that give it life. Beyond that, the discussion of strategy comes down to the alignment of markets and businesses with an organisation's fundamental purpose, the balance that the business should seek between maximising returns from the present and the future, and how it should do this.

I argue that the tools of strategy can be applied to any organisation, and that the challenge of making them relevant comes with the careful delineation of the context, not the choice of tools themselves. The tools can add value in any context, but has the environment been defined in a way that enables them to do so? Perhaps the key to doing this can be unlocked by design thinking, which avoids the path dependency of prevailing discussions in identifying mysteries and seeking to unravel them? The challenge, of course, is to identify these mysteries in a way that disassociates the thinker from the existing boundaries of thought once one defines such areas of interest as 'mysteries'. For example, examining data associations in pursuit of a causal relationship might involve focusing on outliers rather than the bulk of data that constitutes the central tendency.[7]

Consideration of the application of the concept of strategy to public administration is challenged by the legislated constraints on the business the public service is in. The public service is seen to have little control, and not much more influence, over the choice of its activities and the allocation of resources to these activities. Moreover, notwithstanding the occasional external jolt to the practice of public administration – from governmental or environmental change – the core tasks of public administration have been largely stable for decades, one might say centuries. Why could it possibly need a strategy?

I argue that public administration is competing for business, whether it chooses to recognise this or not; that it is losing the competitive battle; and that it is in the public interest that it recognises and responds systemically to this challenge. The public service is not well equipped to support a strategic approach to its business, knowing little in a systematic manner about its competitive position – about its costs, customers, and competitors – leaving it poorly placed to take a strategic approach to its business.

7.2.2 A simple strategy framework

Whilst most leading business strategy authors choose to emphasise different points in their own 'takes' on strategy, they all seem agreed that the foundation of good strategy is choices (see, for example, Porter 1985; Grant 1995; Christensen & Raynor 2003; Martin 2009; Lafley & Martin 2013). And from their various discussions of content and process a generic framework can be proposed. This is presented in Fig. 7.1

7 In his book on design thinking, Martin (2009) presents a fascinating discussion of what he calls 'the reliability bias', which encourages the identification of patterns in chaos, rather than discarding those data points that do not fit the pattern. He distinguishes between reliability and validity in understanding data associations. In a similar vein, McGrath (2013) encourages seeking something new in pursuit of competitive advantage: it need not be a new product or technology but it could be a new market or a new set of customers that develops from the reconception of the existing business.

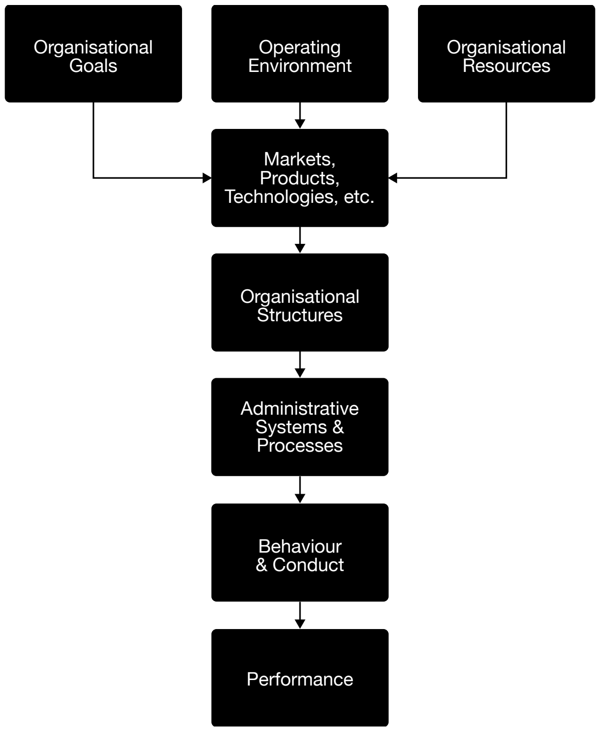

Figure 7.1 The basic strategy development framework

Given an organisation's fundamental purpose, a standard way of developing a firm's strategy is to first consider its goals (what winning looks like), search the operating environment for businesses that could best align with these goals, filter them through the resources available (internal capabilities plus suppliers, alliances, and partnerships) to determine the activity mix that the organisation should (and should not) undertake. This is followed by making choices about organisational structures, management and administrative systems and processes, associated with desired organisational behaviour and conduct, all of which contribute to results. Fig. 7.1 presents this analytical structure.

Conceptually, this process can be divided into two stages.[8] The first involves determination of the product, customer, market and technology mix, with regard to organisational goals and underpinning capabilities. Questions to ask include, what does a win look like (goals/targets); where

8 It can be argued that strategy development is one integrated and iterative act involving its formation and implementation. For expositional purposes I have treated it as separate stages.

to play (choice of customers/activities); and how to win (development of compelling customer value propositions)? The second part of the process, and integrated with the development of the first, involves choosing an organisational structure and supporting management and administrative systems that accommodate and enhance the chosen customer and market focus. These structures, systems, and processes need to harmonise with organisational behaviour and conduct.[9]

Important issues involve the determination of the intra- and extra-organisational relationships, achieving the desired values and behaviours, and the enabling management and administrative systems. This critically includes servicing the organisation's governance needs – the collection, integration, and aggregation of information across organisational levels to accommodate reporting against internal performance targets at multiple levels, but which at a corporate level must also accommodate a compliance component to fully address whole-of-organisation governance requirements. The final piece of the strategy framework is performance, viewed primarily in terms of the meeting of the organisation's goals.

There are many variations to this core business strategy framework, depending on what needs to be emphasised and to what level of detail. Any single element could be expanded into a self-contained diagram; pairs of (or multiple) elements could be presented with feedback loops; and the map could provide for multiple business divisions and information flows between head office and the divisions or functions (or both), depending on the organisational form and the respective roles of head office and the divisions in the planning process – the latter could also give effect to the organisation's choice of balance between deliberate and emergent strategy.

The entity could also be considered as a social/human organisation, rather than as a set of product- and market-based interactions, embracing communications (hard/soft) flows between head office and the divisions, between functions, and with third parties, giving effect to the concept of internal and external boundary conditions. Moreover, these flows might be presented, for example, in terms of the relative quantities and

9 There is a useful distinction between the (internal) behaviour of people within the organisation, and the (external) conduct of the same people in their external relationships. I have used the term 'culture' minimally because it is difficult to define and quantify and is often used as an ill-defined catch-all for human behaviour. From an analytical perspective it is more useful to concentrate on organisational leadership, which drives the alignment of people with organisational goals and strategies.

the balance between hard and soft communications. Other refinements might be possible in terms of the content of the communication and the respective roles of the parties – some communications might be regulatory based with government agencies, some might be marketing based with customers/suppliers, yet others might be professionally based exchanges between internal and external parties (e.g. between lawyers interpreting the trade practices legislation), and many would be between 'head office' and the divisions.

7.2.3 Application of the framework to the public service

The application of the simple framework to the public service raises three sets of issues. The first is the key contextual issues that distinguish the public from the private sector – these might be viewed in terms of the institutional and legislative differences. The second is the internal differences between the public and private sectors. And the third lies in their interface and should be considered primarily in terms of behaviours.

The institutional and legislative features of the public service are a major point of difference. The role of government as a determining presence, the legislated role of the public service in regard to the public and the parliament, the embodiment of these relationships in a dedicated act of parliament, the role of watchdog bodies in regard to the public service, and the central agency role and public nature of the business of public administration are also important differences. Then there is the nature of the public service itself, with its mixture of public, merit, and private goods and services; funding and staffing differences; and resourcing levels, allocations and senior management appointments determined by governments.

Moreover, differences in funding and staffing are matched by minimal choice over the business of the public service and a lack of a market price for services (Ludwig von Mises' economic calculation is not there to determine value). And, importantly, the continuity of the public service is legislated for – as a business it cannot fail. Moreover, governments largely determine the organisation of the public service in an overall sense and its division. Finally, it can be argued that the public service has limited control over organisational behaviour beyond its formal rule-driven component because of the nature of its relationship with government and the impact that both formal government policies and behaviours, especially of ministers and staffers, can have on departmental and public service culture.

Yet there are many similarities, especially with big business. The tasks of management are similar in a generic sense: there are customers (clients) and stakeholders, goods and services to be procured and delivered to clients, budgets to be managed, capital projects to be overseen, around 160,000 staff to be managed and developed, and there is a brand to be managed. When viewed as a competitive business, the public service has some serious competitive advantages, namely a legislated role (through the role of secretaries) as principal official policy adviser and manager of service delivery, guaranteed funding, and a seat next to (the ear of?) government – advantages that many businesses would pay dearly for. Discussions of the role of the public service typically tend to emphasise the constraints of government but, surely, this is a very powerful base to work from?

Moreover, the problems of government today – its short-termism and failure to invest; its piecemeal, fragmented, and low-level approach to policy; and the absence of a moral compass, even common sense (as measured by the pub test), amongst many parliamentarians – must be considered in light of how the relationships between the government and the public service, in its legislated and practised forms, is a key variable in any mix to improve the quality of government. The existing institutional and legislative arrangements should not be taken for granted and a better way must be sought within the broad ambit of a representative government served by the public service. The limitations of path dependency must be eschewed and, in public policy terms, public administration should be treated like any other activity in the economy, seeking to secure its best contribution. The legislature must not be used to serve private interests – in this case the private interests of the political parties and their supporters.

There are a number of possible sources of additional public value to be generated from a strategically led and managed public service. The first is that, when used to its best advantage in the private sector, strategic management focuses on choices between what to do and what not to do. This focus is in short supply in contemporary politics – there are too many problems to solve, too few resources to solve them, and little appetite to disengage with any group already being serviced from the public purse. If only for fiscal reasons, governments need a more strategic approach. The public service must find a way (or be empowered) to assist governments to make better choices and invest.

Much of the necessary analytical infrastructure and data collection is missing from public administration, including to better inform government of the consequences of its choices, to better manage its own activities, and to apprise the Australian public of the outcomes of government activities. A top-down focus on strategy, through a board and dedicated executive team, would ensure the establishment of this analytical structure consistent with statutory governance obligations. Accompanied by a capacity to practise the values and code of conduct set out in the *Public Service Act 1999*, the established role could contribute to more government decisions based on public value rather than political advantage.

The public service must reconceive itself as a competitive enterprise, develop a strategy, and actively compete for the strategic high ground it has given up over the last 30 or 40 years. Political parties are private organisations established to serve their stakeholders – they are no different in principle to the many other private organisations that seek advantage from government, whether through accommodating policy settings or from supply contracts. While our government is run by private enterprise, the Australian Public Service is established under an Act of parliament to serve – the government of the day, the parliament, and the Australian public. Only the public service has the legislated requirement and incentive to take an integrated and high-level view of the role and performance of government.

Central to the notion of strategy in the private sector is the concept of winning through effective competition. The private sector strategy literature is sometimes dismissed as inapplicable to the public sector because of the presumed absence of competition, but that assumption is misplaced. Certainly there is competition between political parties and individuals for office, but competition abounds in the business of public administration: there is competition amongst promoters of different political belief systems, policy frameworks, policies, and service delivery options, and this competition continues through the life of every government.

More importantly, amongst the elements of the governing parties (factions, parliamentary and organisational wings), there is competition for influence over, and ownership of, policy, including from the various think tanks and universities, and the community-based and private enterprises that wish to be the beneficiaries. There is a plethora of individuals and organisations that attempt to influence government decisions to their immediate benefit and of their clients. Right across this spectrum, the public service faces competition for influence, within its legislated policy advisory and service delivery management roles. Thus, there is a strong case to reconceive the public service as a competitive enterprise, to apply the concept of strategy to its activities, and consider how to enhance its capacity to meet its charter to serve the Australian public.

7.3 The concept of strategy in the public sector

7.3.1 The public sector strategic management literature

This examination of the concept of strategy and its linkages to structure leads to a consideration of the views expressed in the public sector management literature about the application of this category of private sector literature to the public sector. Public sector literature on strategic management is beginning to address some of the core questions with regard to strategy in the public sector. Articles by Theodore Poister and colleagues, and Jesper Hansen and Ewan Ferlie in the United States have examined the applicability of core strategic management theories – such as the resource-based theory and Porter's theory of competitive positioning – to the public sector, focusing, for example, on the determination of factors such as degree of fiscal autonomy, standardisation of services, and the presence of competition, as key determinants of suitability (Poister & Streib 1999; Poister, Pitts & Hamilton 2010; Hansen 2007; Hansen & Ferlie 2014).

The various theories of public sector strategic management range from viewing the organisation as a bundle of capabilities (the resource-based theories), to one of viewing the degree of competition amongst buyers, suppliers, and competitors as the prime determinant of organisational strategy. Both have a potentially useful perspective for the public sector. Most observers, however, are equally sceptical of their applicability to the broad range of public sector activity. For example, John Alford and Brian Head point out that, when considering the adaptation of the tools of corporate strategy to the public sector, '"government agencies" generally do not have the full set of freedoms borne by businesses namely goal setting, financial, recruitment, choice of business lines' (Head & Alford 2015). And, in turn, Hansen has made the point that only certain types of public sector organisation are suitable for the application of the Porter and resource-based strategic management theories (essentially those that have predominantly private sector characteristics) (Hansen 2007). I make five points in response to this hesitation.

First, whilst a useful starting point, market structure tests of suitability are largely built around a benchmark of autonomous firms and competitive market structures, which underestimates the prevailing level of competition for the business of government. This underestimation occurs because the competition is not necessarily competition of a conventional product features and benefits and price-driven kind and is rather a battle of ideas and for influence and, therefore, is harder to characterise and analyse. As argued in Chapter 8, the models are no less applicable in prospect to public sector/public service activity.

Secondly, much public sector management literature concludes that the private sector strategy literature has limited application in the public sector domain. This is rooted in a particular view of the NPM experience, which resulted in many critics arguing that differences between the public and private sectors were so great that business practices should not be transferred to the public sector. It is arguable that some of the tools were poorly chosen and others imperfectly implemented, and that a careful assessment of the NPM experience does not invalidate the general concept of application of private sector tools to public sector management.

My third point follows academic research into the applicability of private sector management tools to the public sector. In a 2002 meta-study, Boyne concluded that there should be no general presumption against the application of private sector management techniques to the public sector. He examined both the theoretical arguments and evidence from 34 studies and determined that the balance of evidence did not support this presumption, despite the dominant view in the public policy and administration literature that public and private organisations were so different that NPM-style prescriptions were inappropriate. He concluded 'Therefore the injunction that public managers can learn useful lessons from private managers is worthy of serious, but cautious, consideration' (Boyne 2002). Furthermore, whilst not settling the score on this count, Boyne's article left researchers open to find that any shortcomings arising from implementation of the private sector–driven NPM were a consequence of inadequate implementation rather than unsuitable tools.

Qualified support for this view is also provided by Mark Moore, who examined the development of a corporate strategy for three different sorts of organisations – private for-profit, non-profit, and governmental – and considered the managerial tasks undertaken in each in the development of a corporate strategy. He argued that the essential difference between private for-profit organisations and governmental organisations is that financial performance dominates the strategic thinking of the first, whilst the creation of public value and mission attainment is central for the last. According to Moore, the form of such strategies, and the analytic tasks used in developing them, is the important distinguishing difference but that organisations in all three sectors need strategies to remain purposeful and effective (Moore 2000).

Moore went on to develop a strategy formation model for government organisations that incorporates the three elements of value, legitimacy and support, and operational capacity. He supported the notion that governmental organisations should plan and develop strategies, although he argued that the content and processes of strategy development for these organisations should differ from those of the for-profit sector. Unfortunately he did not make the critical distinction – which is central to the concept of legitimacy – between different forms of governmental organisation, variously describing government bureaucracies, and the efforts of elected representatives and officials, as one.

For governments (the elected representatives), the concept of legitimacy has elements of voter mandate and the standing of government in the community. This 'legitimacy' provides an umbrella, the authorising environment, under which the public service operates. The concept of government legitimacy is no less important for the public service for it helps to define the boundaries and limits of government activity and the role of the public service in its development. As argued in Chapter 5, when viewed in Moore's terms, there is a role for the public service to play in legitimising government.

Whilst there are some distinctive differences between private and public sector management, they do not invalidate the application of the notions of industrial organisation and strategic management to the public sector.

7.3.2 Application of the concept of strategy

The concepts, language and, most particularly, the environment may well be different when applying strategic management to the public sector. Table 7.1 aligns these key issues in the development of a public service strategy with the core elements of our strategy framework.

Table 7.1 A public service strategic management framework

Framework	Associated concepts and issues
Complexity of the environment	Degrees of wickedness, community involvement, services and solutions, solution and resolution, manifestations and root causes, containment and elimination, trust in government, a diminishing pool of authority, government by private enterprise, government short-termism, the 24-hour news cycle.
Organisational goals and belief systems	An integrated organisation; goals and their boundaries: alignment; the requirements of the Public Service Act – serving a triad of communities; values, conduct and behaviours; the concept of public value.
Organisational capabilities	Leadership and the role of 'head office'; competences and capabilities; strategic management; cross departmental and cross sectoral collaboration, coordination, and cooperation; organisational learning; a career public service; activity and performance measurement; hostage resources; resource-allocation processes and supporting management information; systemic policy capability, 'seeing' all Australians, looking over the horizon, and actively managing itself.
The activities	Competition for influence, competition for business, active management of self and government stakeholders, build confidence in government, build and capture public value and promote its own achievements in the national interest, sustainable rather than transient advantage. Who is the customer?
The organisation of resources and administrative systems/ processes	Organisational structure; strategy and structure; a learning organisation; inertia, change, and adaptation; organisational boundaries; innovation; vertical and horizontal collaboration; networks; outsourcing; information flows; data architecture; integrated organisations; organisational form, size, efficiency and effectiveness; performance measurement, government governance and accountability; public service governance.
Behaviour and conduct	Values, behaviours, code of conduct; organisational structure and behaviours; aligning behaviours with organisational goals; organisational boundaries and conduct; leadership; structures.
Performance	Due process; inputs, outputs, impacts, outcomes and public value; services and solutions; cooperation, coordination and collaboration; government governance and public service governance.

The framework of Fig. 7.1 can be applied to the public service with reference to the end game for government being the delivery of a set of valued services to citizens so as to achieve re-election. For the public service, with its duty to serve the Australian public and parliament as well as the government, the challenge is to balance the requirements of the government of the day with the needs of governments of the future, and with the competing demands of all three constituencies. The hallmark of its success is the influence it exerts over the policy choices of government in the longer-term and the quality of its ongoing financial and program administration. If it is to be successful in these terms, it must create room for activity choices rather than have all of these choices made for it by government(s), and it must see itself as an entity separate from government. From a public policy standpoint, there must be more to public service life than administering today's government's policies; it must have its own strategy.

7.3.3 Public sector innovation

Innovation has emerged as a management tool to respond to the challenges of an unfriendly operating environment incorporating slow overall market growth and fierce competition for market share in established industries. Kiechel's observation that innovation as a management concept sits comfortably with both the humanist and numerical streams of the management literature, which gives it credibility that other management concepts may not have.

The writings of March, Martin, McGrath, and Tushman and O'Reilly on associated developments in organisational structures and processes are designed to spell out how to do it. The most useful framework within which to view this literature is March's distinction between exploitation and exploration (March 1991). A lesson from this article is the natural tendency for exploitation to progressively dominate exploration through application of standard corporate resource-allocation processes in the absence of a concerted effort to the contrary. This substantiates the desire to seek a structural resolution to the problem of resource allocation – for example, ambidextrous organisations – but does not solve it. Other solutions are proposed in terms of formal and informal allocations of an individual's time to the two tasks. This literature is developing.

In the case of the public sector, innovation as a tool of general management has yet to achieve the status that it has in the private sector. Whilst innovation does occur in the public sector – it may be viewed as 'ministerially driven', or 'bottom-up', and may be 'top down' – what it invariably is not is systematic, systemic or strategic.[10] Moreover, current research into innovation in the public sector is still in its infancy, albeit growing rapidly and in a number of disparate directions. There is a basic human capacity to observe and learn through repetition and curiosity, and address 'mysteries', which underpins a level of innovation through all human activities across public and private sectors. Yet beyond this 'operational' or 'business improvement' innovation (Bason calls it random incrementalisation), the drivers of public sector innovation remain obscure. And, because it is uncertain why innovation occurs, there is less validation of subsidiary dimensions of innovation – including whether it is a learning process, problem- or capability-driven, and whether its core is incremental or radical, systematic or episodic, self-directed or management-led in nature. Consequently, the process is less able to be automated.

It can be argued that this absence – of a systematic, systemic and strategic approach to innovation across the public sector – is due to the absence of competitive pressures. Certainly, there are competitive pressures within the public sector for budget. The usual commentary, however, is focused on the absence of external competition for the business of the public service. This observation may well be true in some parts of public administration that do not readily allow competition, as in Oliver Williamson's example of foreign affairs (1999), but, as a broad-based perception, it is wrong. The public service around the globe is in a battle for influence over government policy and expenditure decisions, and is steadily losing market share, as governments increasingly look to third-party service providers and influencers to meet their needs.

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10 There is value in distinguishing between the three terms systematic, systemic, and strategic. I use the word systematic to mean methodical, carried out using step-by-step procedures, and/or constituting a system, where 'the system' is the innovation system. Systemic, on the other hand, describes something that happens or exists throughout a whole system, it is whole-of-body, where 'the system' is the public service/sector. Strategic innovation, as defined by Bason (2010), is associated with setting organisational direction ('the what') and the need to find innovative solutions to create the desired value around this direction. I contrast this with operational innovation, which is associated with the day-to-day tasks of the organisation and which might ordinarily be associated with business improvement activities.

Another argument commonly advanced to 'explain' low levels of innovation is that of the public service's risk-aversion, which, in its more enlightened forms, recognises career, financial, and political risk(s). Whilst the presence of these risk forms is acknowledged, with the latter a unique feature of public service activity, I argue in Chapter 9 that, to the extent that risk-aversion exists, it does so substantially because there is no organisational framework within which entrepreneurial individuals, even those pursuing relatively low-level operational innovation, can lay off this risk. In the absence of a suitable organisational framework for the management of associated risk, it becomes career threatening. Career risk, then, is an important factor. State and federal government reports continue to identify the absence of suitable organisational risk management frameworks, regularly recommending that suitable governance and accountability frameworks be established in such cases.[11] [12]

Notwithstanding these valid reasons why levels of public sector innovation may be sub-optimal, there is an emerging public sector literature exploring the foundations on which a more innovative public sector might be built. There are two streams to this literature. The first is that of collaborative innovation, which reflects the growing focus on the need for tools to deliver effective vertical and horizontal coordination in a model of increasingly distributed government; this has been the major development in the public sector management literature over the last decade and a half. The question being posed is how public sector managers can deliver more effective public policy responses to problems that cross departmental and

11 The management of individual and organisational risk from public service activities is a weak point in many departments, not just in regard to innovation. One such example is the risk associated with undertaking controlled burnoffs in Victoria, where the responsible staff have been reluctant to do this because of the risk of breakouts and widespread damage, and the consequent impact on their careers. This followed a breakout from a controlled burn in country Victoria at Lancefield on 30 September 2015. The consequence is a system in which accountability is shared, with no one and everyone responsible in the event of a disaster, much like the Australian Government home insulation case noted earlier.

12 Risk management practices in the public sector are more developed in regard to third-party arrangements than internal operations, especially in regard to the variety of risk-sharing partnership arrangements with the private sector, however, further development is required here. No matter how government contracts with the private sector to lay off commercial risk, and whatever it might pay to do this, the prospect of failure by a commercial partner always leaves the government wearing the commercial risk as a consequence of the associated political risk. Governments are ultimately unable to avoid the commercial risk of jointly sponsored projects hitting hurdles and, as the Australian Government's Productivity Commission points out, governments must avoid both implicit guarantees that create perverse incentives that weaken risk management ('too important to fail'), and the pursuit of a risk-minimisation strategy that runs the risk of inflating overall project costs (trying to lay off all of the commercial risk) (Productivity Commission 2014a).

sectoral lines with the recognition (a) that fashioning these responses must become a priority for organisational leaders, and (b) that being innovative is necessary, given the uniqueness of individual problems. An important part of this research has focused on understanding how, in a world of overlapping problems and root causes, managers can be confident that actions will have satisfactory system-wide effects, whilst another has started to examine the organisational management issues, and a further part is exploring the influence of context on the performance of different management models.

The second and more recent steam of literature sees innovation as a whole-of-organisation challenge proposing the development of a systematic approach, and a supporting organisational culture. In *Leading public sector innovation*, Bason observed that most public service–led innovation is of a low level, not managerially driven, emerging in an incidental or random manner from the bowels of public administration, and ill-suited to delivering the kind of radical solutions needed (Bason 2010, p 15). Bason sees the challenge as creating an innovation strategy and its integration with robust organisation-wide processes to ensure continuous learning and improvement (Bason 2010, Chapter 6, esp p 120 ff). Eva Sørensen and Jacob Torfing highlight the accidental and episodic character of public sector innovation and its lack of enhancement of organisational-innovation capacity (Sørensen & Torfing 2012, pp 4, 8). Mulgan highlights the small budgets and lack of public sector commitment to innovation (Mulgan 2009).

What this set of public and private sector literature has in common is the articulation of a common problem for established organisations – how to balance the present and future in an increasingly volatile and unfriendly environment. This label applies whether the discussion involves the merits of transient advantage over sustainable competitive advantage, of ambidextrous organisations over processes embedded in existing organisational structures, or how to effectively integrate the tools of design thinking into established organisational processes. As Bason observes, one of the key challenges in building a culture of innovation in the public sector is to recognise the equal validity of innovation and operational activity: 'Innovation can be perceived as a barrier to "real work". Conversely "real work" can be a barrier to innovation' (Bason 2010, p 120). This is the challenge that March wrote about in 1991.

The public service must become innovative to meet the needs of effective coordination. This requires leadership, not management, which treats it at present as an incidental outcome from the prevailing day-to-day activities.

The necessity to promulgate associated organisational (management) rules, and administrative systems and procedures as well as develop new capabilities practically demands that innovation be treated as a strategy not just at the level of the individual department but on a whole-of-public-service basis. It should be one of the key elements in a centre-driven public service that takes as its challenge not just how to do things but what to do.

7.4 Conclusions

The field of corporate strategy has recently recognised the management tools needed to integrate the exploitation of existing market advantages, along with the exploration of new such advantages. Developments in this literature – the application of design thinking, the development of the notion of transient advantage, and a focus on the development of organisational capabilities to manage the integration of exploration with exploitation – have seen a blurring of the distinctions between innovation and strategy. For some, innovation is the new strategy, for others it is an important platform in corporate strategy. Where it sits in an organisation's hierarchy is a function of its history and the pace of change in its markets; how successful it is likely to be is a function of its capacity to observe and assess change and form an effective response. The private sector management literature is converging on the view that innovation should be central to the way organisations think strategically and operationally with a developing view in the public sector management literature that innovation may also be necessary for survival.

The prevailing debate about the concept of transient advantage can be seen as a metaphor for the broader debate about the direction of corporate strategy. McGrath argues that the utility of the concept of sustainable competitive advantage, which underpins Porter's work and remains at the heart of much contemporary strategy analysis, has passed in an age of turbulence and rapid change in corporate markets, and that the concept of transient (as opposed to sustainable) advantage has greater utility today (McGrath 2013). There is much dispute around this subject but it can be argued that the concept of competitive advantage continues to be useful despite shortening product life cycles, and that what is needed is an additional capacity to generate and integrate innovations if they are to survive. The equivalent point of agreement in the public sector literature is that the public sector must elevate innovation from its present status of random incrementalisation to one of strategy that drives the public sector.

Similarly, where Head and Alford see the potential value of the adoption of the tools of corporate strategy in the public sector, noting that it widens the horizon of choice from simply how to do things to what to do, context is also a necessary consideration (Head & Alford 2008). In the context of a multiplicity of players involved in fashioning and delivering solutions to complex public sector problems, Head and Alford see making choices about what to do, through the use of tools such as strategic positioning and determination of core competences, as potentially beneficial when applied with flexibility in goal-setting and strategy development.

These tools are rarely focused on the external interface in a public sector context. At the heart of the determination of corporate strategy lies the concept of competitive positioning. Within the public service there has been too little attention paid to goal-setting (winning) and what to do (as opposed to how to do it) and the organisational and skill requirements for both the general and specific solutions to today's problems; and too much attention paid to collaboration at the expense of competition.

This public sector focus on the internal to the exclusion of the external, on capabilities and competencies rather than customers and value chains, one that has been described in a corporate context as 'the four walls approach to strategy' – might well also explain a public sector lack of interest in obtaining and retaining systematic market knowledge. Laura Tingle (2015) noted destruction of corporate memory in the Australian public sector, but it is more importantly an absence of the proactive acquisition of market intelligence of the sort that would be used by any large corporation to inform its allocation of resources.

Every organisation has actual and/or potential competitors for its business now or in the future and one of the key elements that a successful strategic approach to an organisation's business must deliver is information on competitors, on customers, on underlying demand and supply trends, on the impact of technology, on market and organisational risks, all married to information on its own business. At the whole-of-organisation level, this information must support regular reviews of the businesses it is in, and at the operating or business unit level (in public service terms, the individual department) must focus on its competitive positioning, together addressing the questions of where to play and how to win on an ongoing basis.

The systematic accumulation and interpretation of market intelligence should be a dedicated function in any large organisation, and play a critical role in shaping its strategic outlook. Market intelligence in a public sector context should comprise the information that is collected at individual department level and at whole-of-public-service level. This may range from 'global' developments in consumer, political, industry, social, and environmental behaviour (the core of corporate market intelligence), through to such behaviour in local markets allied with competitor analysis (the core of business unit market intelligence). A central capability is required to support this critical function.

The public service must use all of the tools available to competitively position itself amongst the players in the system and actively compete for influence amongst them. In the words of the early strategists (who were military men), the public sector should choose its battleground, build its capabilities, and engage in war. Anything less will see its legitimacy and competitiveness further eroded at long-term cost to the community at large. To achieve change, the public service must reconsider its role in delivering good government, acknowledge both the commonality and divergence of interests with the elected representatives, and build new capabilities and processes to deliver beneficial outcomes. Fundamentally it will need to determine its competitive advantage in the political game and actively compete.

Unless the public service reconceives itself holistically, acknowledging that it faces a Porter-type challenge to actively compete for its share of the business of government, it will continue to lose relevance as a player in the game, continuing to 'play to play' rather than playing to win. A 'decision' by the public service to actively compete rather than retreat in the public policy space would require its re-conception as a competitive organisation with its departments equipped to compete.

Context is essential for the prescription for any single organisation. Whilst there may be some common high-level imperatives for all organisations in the face of widespread economic and social change during particular periods of history, there will always be differences as to how individual organisations might best respond. The pace of change in individual input and output markets will vary and different organisational structures, different balances between exploration and exploitation, perhaps even different capability development and accompanying resource allocation processes, will be required. The importance of these contextual elements may vary as much across individual business units within a large organisation as between organisations. It is important that the public service understands and responds.

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