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The Strategic Management Challenge: Modernizing Local Government. Part Two

ABSTRACT: As local government undergoes internal modernization, it faces the challenge of strategic management. This challenge includes the need to coordinate the newly decentralized elements of government; the need for organizational development and cultural change, so that values and behavior within the organization keep pace with structural developments; and the need to manage uncertainty, as local governments face an increasingly competitive and rapidly changing environment. Empirical studies show that strategic management capabilities have not developed evenly across a broad international sample of reform cities. However, the successful program in Christchurch, New Zealand, offers suggestions for other cities.

In the first article of this series, we discussed both favorable and unfavorable trends observed in a broad international sample of local governments undertaking reforms along the lines of the New Public Management (NPM). This study concluded that such governments face two major frontiers as they enter the 21st Century: the challenge of strategic management in the context of internal modernization, and the challenge of managing the local government's new interface with its social, economic, and political environment. These inward and outward dimensions are both essential elements of strategic management. In this article, we will discuss the concept of strategic management as such, and then

focus on the internal challenge of organizational management. In the third article of the series, we will discuss the challenge of managing the external interface.

Public-sector strategic management has been discussed and practiced longer than has NPM. In what sense, then, do we assert that strategic management now poses a particular challenge for local governments?

First, strategic management by its nature can never become a finished body of principles, and offers different meanings in different situations. In the context of local government reform at the beginning of the new century, it may mean something other than what many who use the term mean by it. Public managers engaged in one approach to strategic management may need to learn a new approach.

Second, the NPM program of reform raises a paradox: On the one hand, the principle of decentralization seeks to push responsibility down toward the interface with the customer of government services. It gives front-line personnel and their operating managers a new level of autonomy and empowerment. This is expected to stimulate more creativity, more service-oriented motivation, more effective results, and more efficient use of resources, as compared to rule-bound bureaucracy. On the other hand, the reform movement also talks of increasing effectiveness through cross-functional co-operation, and increasing efficiency through synergies and elimination of redundant internal services as compared to compartmentalized bureaucracy. These impulses point in different directions, one centrifugal and the other centripetal. The question of overall management—the coordination of autonomous elements and the reconciling of divergent forces—is a critical test of the practicability of NPM. It is more difficult than merely adding organizational development to existing long-term goals and plans.

Third, local governments face a more competitive and uncertain environment than before. This environment is far more competitive than that of central governments. Resources such as capital, technology, and labor continue to become more mobile internationally, forcing nations to compete for them. However, no matter how mobile between nations these resources may become, they will always be even more mobile between cities. In the macroeconomic, demographic, sociocultural, and technological environments all governments face uncertainties, but individual local governments have less ability than central governments to influence long-term trends. As the environment of local government becomes more competitive and uncertain, strategic management becomes more critical.

Given the rich literature on the subject, we will not attempt here to construct a theory of strategic management. Rather, we will outline some common components of such theories, and then selectively focus on aspects relevant to

restructuring local governments, especially as brought out by the empirical studies conducted by the Berlin Science Center (WZB) over recent years.¹

STRATEGIC MANAGEMENT IN CONTEXT

Strategic Planning and Strategic Management

The idea of strategic management comes to us today from the business world, but it has origins in the military—a public institution. *Strategy* is derived from the Greek word for a military commander, and can be defined as what generals do (or should do), essentially goal-oriented planning. However, most discussions of strategic management in modern organizations include some combination of the following four components, some of which help to define the difference between strategic planning and strategic management: goal-oriented planning, anticipation of contingencies, coordination of elements, and development of capability.

Goal-oriented Planning

This is the essence of strategy. It means creating a target structure of goals and subgoals, identifying the resources and tasks necessary to achieve each objective, deploying the available forces accordingly, and assigning each objective to a specific force element. In government, “strategic” planning often simply means long-term planning, but the time horizon is not as vital conceptually as taking responsibility for the linkage between goals and actions.

Local governments have long practiced strategic planning, but without one key element. Military strategy includes selecting the ground on which to fight, and which opposing forces to engage; in business this translates to identifying one’s target market. For local governments, this choice appears at first to be a given, making planning irrelevant. Unlike government, a business enterprise has the freedom to invest in—or divest from—any activities that it chooses, unless prevented by regulation. Local governments are discovering that they have more of this kind of freedom than previously assumed (one point of “devolution”). However, they are fundamentally bound to offer or guarantee some variation of a basic package of services, and they are inseparably tied to their location.

Although exceedingly complex in the details, outcomes in war and business are easily simplified: victory or defeat, gain or loss. Outcomes in public management, and thus goals, cannot be so readily reduced to single-measure criteria. Furthermore, the growing pluralism of constituencies for local governments in developed countries means that many goals coexist in tension, if not outright contradiction.

¹ These studies are described in the first article of this series, and in the report published by the Berlin Science Center (Naschold, Oppen, and Wegener 1997). The primary author directs the unit that conducted the research.

In the third article of this series, we will discuss how local governments face the need to redefine their role in society, and thus their goals—in other words, the need for strategic management in an environment of changing public expectations.

Anticipation of Contingencies

In business, as in war, competitive strategy means making plans that opponents are simultaneously planning to thwart. In local government, there is seldom direct belligerence between municipalities, but there is certainly competition for industry, commerce, tourism, public events, political influence, favorable demographic change, and various kinds of resources.

There are also contingencies not caused by competition. Strategic planning requires the analysis of changing environmental conditions; in addition, strategic management requires anticipation of internal contingencies, such as individual and structural failures. Municipalities have long practiced contingency planning for natural disasters and major accidents—and more recently for acts of terrorism. However, they are learning that they also need to plan for demographic shifts, structural economic changes, technological changes, political and cultural changes, and even changes in climate. As central governments restructure themselves, giving up some of the planning function in these areas, local governments face more uncertainty and risk, and thus an increased need for strategic management.

Coordination of Elements

Strategy has always required the coordination of elements, but as operating units become more autonomous, the need for strategic management becomes more pronounced. This is a defining difference between strategic management and strategic planning; the actions of autonomous units cannot be planned, only managed at best. Both military and business strategists face greater challenges when their forces become decentralized; likewise, public management faces one of its greatest challenges as local governments undergo decentralization. This challenge will be discussed at length later in this article.

Development of Capability

This is another component that defines the difference between strategic planning and strategic management. There seem to be two broad approaches to dealing with uncertainty: planning for every contingency in detail, or developing the structural ability to adapt to contingencies as they occur. The first is more closely associated with strategic planning, the second with strategic management. One of the driving forces of NPM is the belief that government agencies can in

fact deal with contingencies in creative ways, once they are cut loose from excessively detailed rules.

The development of capability requires managers to create a linkage between overall goals and organizational details: structure, human resources, financial and material resources, information resources, and techniques/technologies. Private-sector management has recently begun to acknowledge that these developmental decisions, in a constrained-resource environment, must be guided by a vision of the core competencies that give a firm its competitive advantage. This kind of strategically guided development is a new challenge for local government.

The Evolution of Strategic Management in Private Industry

The private sector is years ahead of the public sector in experience with strategic management. Although the state of development varies among firms, and the strategic management practices used differ considerably, it is possible to gain lessons for strategic management in local government from private sector experiences, particularly in well-run multiproduct firms and concerns.

Stages of Development

The WZB study identifies five stages of development to strategic management in private-sector industry: (1) the budgeting stage, dating from the 1930s; (2) the long-term planning stage, dating from the 1950s; (3) the stage of subdivision into strategic business units, dating from the 1970s; (4) the stage of corporate strategic planning, dating from about 1980; (5) the stage of strategic management, from about 1985.

Of interest for the public sector is the fact that even today private sector companies are distributed across all these stages of development, and relatively few firms have so far developed a fully-fledged workable strategic management. Such a mature strategic management is distinguished from earlier stages by balancing the operational portfolio of the concern as a whole, joint resource use for synergies in the value-creation chain, and establishing linkages between strategic and operative systems and processes. According to information provided to the author by two major consulting firms, scarcely more than 10% of firms are currently in this, the most highly developed stage of strategic management (personal communication, 1996).

Core Competence versus Operating Unit Autonomy

A central controversy in practically all large firms throughout the world in the 1990s is the relationship between the operating unit and the strategic management of the concern as a whole. Of undeniable value, and virtually universal, is a division into quasi-autonomous operating or business units, usually defined in terms of market segments and/or products. In experience, though, these business

units have the tendency to make themselves independent, and to do so quickly and forcefully. Thus, there is also a widely recognized need for balancing and enterprise-wide optimization through top-level strategic management. What is controversial is the extent to which, and the way in which, business units and the core are to be linked. Hax and Majluf (1996) provide this analysis of the issues in corporate strategy:

The autonomous strategic business unit (SBU) concept, popular since the 1970s, treats corporate structure as a portfolio of discrete businesses. The role of top management is to allocate capital between the SBUs, and to hold SBU managements accountable for business results relative to the capital allocated. Top management optimizes corporate returns through its allocation decisions between operating units. This model requires very little relatedness, synergy, or coordination between SBUs, although in practice, firms vary in the degree of such independence.

On the other hand, the core competence model gaining ground in the 1990s views corporate structure less as a portfolio of business units than as a portfolio of competencies. Again, this is a model; actual practices and degrees of success vary considerably. In this model, business units are still somewhat autonomous, but they gain by participating in the overall firm's reservoir of competencies, and they are evaluated not only in return on investment but also in terms of their contribution to the corporate skill set. The task of top management is to develop, allocate, and coordinate shared talent, not just to allocate capital. This requires the integration of strategy, structure, processes, performance controls, and culture. As a result, business unit management and enterprise strategy may conflict, not just over capital allocation and returns, but in the coordination of effort between autonomous elements with often divergent incentives and agendas.

Different Leadership Models

The tensions between business units and strategic management are naturally reflected in differences of opinion concerning leadership models, especially for the holdings of conglomerates, where the traditional integrated-functional corporate structure is inapplicable. A study of 50 leading global firms (Linder & Wilhelm 1996, 56) identified three leadership models for conglomerate holdings:

1. Financial holding, in the sense of an active or passive portfolio management, is found in companies such as ITT, Preussag, Tenneco, Veba, and Viag.
2. Synergy management by a central management board, in order to generate synergy effects among the autonomous business units, is found in companies such as BASF, Daimler-Benz, Deutsche Babcock, Mannesmann, Siemens, and Thyssen.
3. Operative management by headquarters, with close linkages between strategic control and operative task execution by the business units, is found in

companies such as ABB, Alcatel Alsthorn, General Electric, Linde, and Rhône-Poulenc.

Contrary to theoretical expectations, a 10-year performance comparison of operating results (returns on sales and returns on assets) showed that operative management by headquarters fared best, with portfolio management a close second. Synergy management clearly performed worst.

In the present context, we can leave open the evaluative and causality questions this raises, and whether other measures such as market share and customer satisfaction should be considered. What is interesting for public management is the difficulty of identifying and implementing a "best" leadership model for coordination of diversified holdings, even in the more mature field of private sector strategic management.

STEPS TOWARD STRATEGIC MANAGEMENT IN LOCAL GOVERNMENT

Just as the progress of reform varies among the sample cities in the WZB study, there is also an inverse relationship between the level of strategic management development and its observed distribution in the sample cities. This raises a question as to whether NPM and strategic management development are causally linked. One simple answer suggested by the case studies, along with the above analysis of strategic management, is that the NPM reforms create new problems that require strategic management solutions.

When the sample cities in the WZB study are classified according to the evolutionary schema discussed above for the private sector, it is evident that the main problem of local government modernization currently lies in providing decentralized operating units with appropriate responsibilities—the third evolutionary phase. For the overwhelming majority of cities, the first questions that need to be addressed concern a rational strategy of decentralization and segmentation of their traditional forms of organization. Only in those cities where decentralized operating units have successfully been established, and have proven sustainable, have the tough issues of strategic management arisen. These are the cities where the potentially dysfunctional centrifugal impact of such a restructuring have become evident.

Preliminary organizational and instrumental moves towards strategic management are particularly evident in cities such as Christchurch, New Zealand; Phoenix, Arizona (U.S.); and Tilburg, Netherlands. It is in these cities, in which decentralization of autonomous operating areas is undergoing rapid development, that the dilemmas already evident in the private sector are becoming apparent. The challenge is to balance the divergent tendencies of operating units by maintaining a core that adds genuine value to the whole, without at the same time doing away

with the “healthy egoism” and the independent creativity and energy of the operating units.

Christchurch illustrates the steps local government may take toward strategic management. Developments in Christchurch exhibit several key elements of strategic management:

- A top management team consisting of six people has been formed. The effectiveness of this team is reinforced by the fact that the directors of each of the decentralized operating areas devote one fifth of their time to the team. In other words, the city has mobilized its control capacities for the strategic management of the city as a whole, linking the top management team and the city manager together with the decentralized operating units in the strategic management process.
- Collective, open-strategy seminars are held by the top management team and city politicians. Long-term strategic target and resource planning is based to a great extent on empirical market developments. Thus, strategic management is tied to both democratic and market processes, rather than being conducted in internal isolation.
- The central authority seeks to identify and develop those areas in which it can create value for the operating units; the task of identifying such possibilities is ongoing and includes the participation of operating units. In Christchurch, the current focus is on value-added core programs for comprehensive resource management and the cultural change of the whole organization.
- The development of core competencies—in the sense of instrumental, methodological, organizational, and cultural capacities—is seen as an extension to the General Manager’s profile of responsibilities. Again, recent developmental work in Christchurch has focused on capabilities related to complex resource management and cultural change.
- In order to actualize such core processes it has been necessary to create an appropriate organizational framework. In this regard, Christchurch has resolutely moved away from line organization or line/staff/project organization, toward project-based management.

CORE PROCESSES: THE VALUE ADDED BY THE CENTER

In the classical functional-hierarchical form of organization, the undisputed role of the center or headquarters was to create and assemble the core value of the organization by means of tasks performed by subordinate units. In the modernized organization with strong, autonomous operating units, the functional relationship is reversed. It is the client-oriented operating units that create value: any value added by the center lies in the services it renders to the operating units.

As decentralization proceeds, a renewed balancing act is required in the functional relationship between the center and operating units. What the center

must do is identify and actualize those core processes that cannot or will not be performed by the operating units, but which are vital to ongoing organizational development. There are several such core processes considered to be generic in both the theory and practice of strategic management in the private sector (Hax & Majluf, 1996). These four processes have also been observed emerging in the WZB sample cities.

The Management of Coordination Mechanisms

A decoupling of the service delivery role and the role of guaranteeing service provision is one of the central trends in modern local government. The government's commitment to task performance and the operative provision of services are two separate processes. Thus, each link in the value-added delivery chain can be organized in different ways; what is needed is interaction between the various coordination mechanisms. The example of resource management in Christchurch, described in our first article, shows that modern resource management is performed by means of a whole series of coordination mechanisms different from traditional budgetary processes. Results-oriented output budgeting is integrated with a bottom-up quality strategy, a competitive process between private and public suppliers, and a top-down process of cultural change.

The establishment and maintenance of this complex process—service production and provision in fulfillment of a public guarantee—is one of the most difficult core tasks in the strategic management of modern local government. In this context, management must master a broad range of skill areas beyond those traditionally required by public administration: the analysis of market and competition mechanisms for strategic relevance, specificity, and efficiency; the creation of value-added delivery chains; the identification, measurement, and satisfaction of customer utility; the use of integrated information systems for real-time coordination of dispersed tasks; and the forging of institutional arrangements between administrative hierarchies, market mechanisms, bargaining systems, election systems, and other forms of participation. The complexity of the new strategic coordination task, using Christchurch as an example, is illustrated in Figure 1.

The Strategic Management of Cultural Change

Ultimately, the strategic management of coordination mechanisms is only as effective as the extent to which new institutional arrangements are accepted by the "stakeholders" affected. Many of the NPM reforms focus on citizen-customer satisfaction; they also need to address the expectations of local government employees. Whereas command-and-control hierarchy traditionally limits its attention to the manifest behavior of employees, the new decentralized and

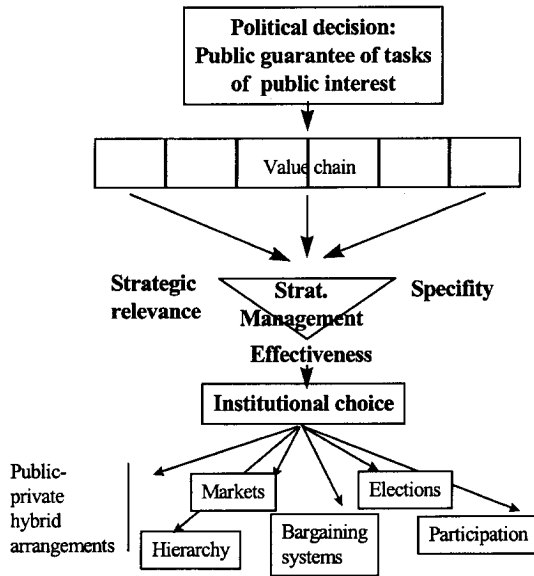


Figure 1. Strategic Management of Coordination Mechanisms

results-oriented public management requires employee acceptance at the level of attitudes, values, and belief systems—that is, cultural change.

An organizational change program implemented under pressure, running counter to the norms of employees, leads to tacit or explicit resistance in myriad forms. This phenomenon characterizes the impotence of many formal programs of systemic change; it helps to explain the WZB study’s finding that about half of the local governments undergoing restructuring showed stagnation or erosion over time. Therefore, local government modernization requires, among its other agenda items, a strategic management of cultural change.

The slogan of cultural change dominated management literature in the second half of the 1980s, and gave rise to a multitude of often confused and confusing activities. Only recently have the conceptual prerequisites and the practical demands of managing cultural change been widely recognized. It is a mistake for management to underestimate the power of the cultural status quo, especially in public administrations with a high percentage of long-term job incumbents.

Private sector companies, not to mention public sector organizations, are still in the early experimental stages with cultural change efforts. A wide range of methods is available, including many programs offered on the market. The instruments include personnel selection and reassignment; group processes, such as role modeling and role playing; educational programs emphasizing a variety of cognitive and skill areas; discursive communication at the one-to-one, small group, and organization-wide levels; and realignment of reward and control

systems. Given the high risks still associated with cultural change programs, it appears unwise either to rely on a single method or to adopt an exaggerated eclecticism.

Two requirements are widely recognized as especially critical: First, programs of cultural change have proven to be both effective and lasting only when linked to an operating strategy, and not just based on group dynamics or on organization development processes. Second, cultural change programs tend to be successful only in organizations where incentive structures reinforce the intended direction of change, rather than creating dissonance and contradictory expectations. For these reasons, cultural and systemic change must be implemented simultaneously.

Of the cities in our sample, Phoenix recognized the importance of the cultural dimension of organizational change at a very early stage. Christchurch took on the role of pioneer, being the first city to implement a broad-based cultural change program with a substantial investment of personnel resources and considerable procedural rigor. The Christchurch program was driven by the strategic idea of giving value and being valued. It was implemented from the top down, and closely linked with the central operating processes, involving the top management team and the unit managers before reaching the rest of the staff. The program included three focal points: an image impact project, with the goal of increasing individual and collective self-awareness; a behavioral focus on multicultural team building; and a conflict resolution emphasis intended to enable team management and distributed leadership.

Strategic Management of the Change Process

Aside from cultural change, the structural change process is also of special importance within local government modernization. The specific mode of change, the time-line, and the degree of inclusiveness are variables that are decisive for success. Such process factors often play a greater role in determining the effectiveness and sustainability of reform than substantive, programmatic factors.

Is there one best way to achieve successful local government modernization? International studies of recent experience in reform cities provide a simple and unequivocal answer: no. Phoenix represents the classical case of long-term and incremental restructuring, endogenously driven by the administration itself since about 1978. Linköping, Sweden is the reverse case. It underwent a virtual revolution from above, imposed by politicians. Within the short space of time since 1992, Linköping has transformed a traditional administration into what is probably the most radical principal-agent model currently in existence, one in which politics is clearly predominant. Christchurch occupies the middle ground in this respect, demonstrating a rapid and radical restructuring process across the entire city administration since 1989, driven by a joint initiative of politicians and administrators. If administrative reform in Phoenix can be termed evolution, and

that in Linköping revolution, the time-compressed re-engineering in Christchurch can be seen as planned invention.

These very different experiences confirm the importance of how process control is achieved in the change process. In the strategic management of local government modernization, the approach to process control constitutes one of the central variables. Four approaches to planned change strategies are identified in the WZB study:

1. In traditional process control, the overall concept of planned change is formulated in advance by the leaders of the organization together with external experts and is then implemented as a single-step change from the top down.
2. Process-oriented change strategies also come from the top down, but involve project organization under top-management guidance and are implemented as a series of short-cycle improvements rather than as a single-step change.
3. Concept-driven change strategies, in the tradition of Total Quality Management, emphasize a broad-based mobilization of employees from the bottom up, and depend on continuous improvement rather than discrete stages.
4. Business process reengineering strategies aim to implement a radical restructuring through rapid, time-compressed “leaps forward” (Buchanan, 1996). They combine expert assistance, strong control by top management, and broad-based mobilization.

Recent debate in the private sector on the strategic management of the change process has increasingly focused on the question to what extent top-down and bottom-up process approaches can be rendered compatible. Radical process innovations are thought to be necessary in the face of competitive pressures. On the other hand, a broad-based, bottom-up mobilization seems to be required by internal dynamics, due to both resource-oriented and culture-oriented conservatism. If this is an open question in the private sector, it cannot be oversimplified in the public sector, where public performance expectations add to the pressure for rapid reengineering, while the conservative tendencies of bureaucracies aggravate the need for a broad-based, participatory approach. It is clear, however, that the design of an appropriate change strategy—even one emphasizing bottom-up innovation—must originate from, be coordinated by, and enjoy the support of strategic management at the center.

Continuous Self-observation: Modernization of Evaluation

“Traditional” administration is based on setting rules and supervising adherence to them. “Modern” administration, on the other hand, is characterized by target setting and evaluation of outcomes. Thus, ongoing observation and evaluation of results attainment plays a central role in the modernization process.

However, the theoretical centrality of evaluation, as both a parallel monitoring

and an ex post examination of target fulfillment, is in marked contrast to actual practice. An international comparison of experience has generated sobering findings (Leeuw, Rist, & Sonnichsen, 1994): Politicians often prefer to set targets rather than have goal attainment figures presented to them for evaluation. Given the importance of evaluation as the most important source of feedback for organizational learning, far too few social resources are invested in it. About 95% of the evaluations examined in a report by the Swedish National Audit Bureau served to support one position within a relatively limited frame of reference. As a result, they only permitted instrumental (single-loop) learning about activities, but not strategic-paradigmatic (double-loop) learning about the fundamental assumptions underlying activities (Furabo, 1994).

In virtually all of the cases of local government modernization, governments have failed to complement the innovation process with an institutionalized means of systematic self-reflection, yet systems development must be not merely planned by experts, but rather based on observation and self-organization processes as a medium of collective learning. This requires not only the deepening and broadening of existing stocks of knowledge, but also the creation of new knowledge capacities as a means of processing experience (Luhmann, 1983: 375). Moreover, these self-reflecting processes must be distributed throughout the entire system, not confined to the top levels of the organization.

These experiences with inadequate evaluation are summarized as four conclusions in the WZB study: First, evaluation must provide an instrument of "double-loop" learning about assumptions (Furabo, 1994). Second, the ex post analysis of processes and outcomes is a necessary complement to the ex ante analysis of strategic objectives (Weick, 1995). Third, the monitoring function must be distributed throughout the entire system, because the idea of unidirectional monitoring is inherently contradictory (Kasper, 1991). Fourth, evaluations are not all alike; they should be differentiated on the basis of function, process, and the actors involved (Furabo, 1994). These are elements that cannot be dealt with by the various operating units in isolation; they constitute a form of value added by strategic management.

THE MANAGEMENT OF UNCERTAINTY

Discourse about modernization, both theoretical and practical, is dominated by a conception of strategic management that has been termed the "rationalist concept" (Wilson, 1992). Such a view of management is particularly predominant in the sample cities in the English-speaking countries and the Netherlands. At the same time, there are cities such as Farum and Linköping that do not apply strategic management in this form, but nevertheless claim to pursue a strategically oriented form of management.

These seemingly rather different cases are indicative of more recent development trends in theory and practice that constitute an alternative profile of strategic management; this may be termed the “management of uncertainty” (Stacey, 1992). As we outlined earlier, the anticipation of contingencies is a fundamental element of strategic thinking, but managers vary in how they approach this task. When contingencies can be anticipated in detail, and organizations can be controlled in detail, the rationalist approach dominates. This style of management operates through mission statements, target decisions, long-term plans, performance indicators, and control systems. However, under severe conditions of uncertainty, strategic management cannot rely on the same tools. Some of the differences between rationalist strategic management and the management of uncertainty can be outlined as follows (Naschold, Oppen, & Wegener, 1997 on the basis of Stacey, 1992).¹

Rationalist Strategic Management

- mission statement
- formulate vision
- long term plans
- key result areas and indicators
- strategic milestones
- monitoring achievement
- culture building
- incentive and control systems

Management of Uncertainty

- no prior organization-wide intention
- designing use of power and interest as a pluralistic political system
- establishing self-organizing teams with power and group dynamics
- developing multiple cultures
- discovering challenges, generating new perspectives, taking risks
- creating resource slacks
- create and support heterarchic sensor systems

Local government is, in the final analysis, a pluralistic political system that must be managed according to the rules of political pluralism and not so much according to a rational decision-making and planning logic. Instead of developing mission statements, target decisions, results plans, and control systems, the task is

primarily to organize the politico-administrative arena in the form of a competitive process between interest and power groups. Establishing process rules rather than behavior rules, activating self-organizing teams, and ensuring a workable administrative competition constitute, according to this conception, the real core of a strategic management within political systems under conditions of uncertainty (Pfeffer, 1992).

This analysis makes a nice dichotomy; under a dialectical view of progress, as described in the first of our articles, such an opposition creates the opportunity to look for a synthesis rather than choosing one of the two alternatives. There is considerable support for the view that the two concepts are complementary rather than substitutive in nature (Schreyögg, 1994; Schreyögg & Noss, 1994). If so, it is important not to play them off against one another, whether in theoretical or practical terms. At this stage of development in public-sector strategic management, we need to learn from both rationalist-management and pluralist-political approaches.

We began this section by pointing out the relatively underdeveloped nature of strategic management in the public sector, as observed in local government. It may be possible for public management to derive a “second-mover advantage” from this fact. It is not obliged to repeat every mistake committed in the private sector; it need not follow every passing trend. Against the background of experience in the private sector, it is becoming possible to address the core problems of strategic management, as the missing link in internal modernization in local government, in a clearer and more focused way.

Some principles can be suggested here: Public strategic management practice needs to be developed rapidly before the centrifugal tendencies in the decentralized structure of modern administration have gained much momentum. A close linkage between a dynamic strategic management and operative core processes is required, instead of the lofty and inflexible strategic planning of the old school. Strategic management needs to be broadened into a team-centered, project-based approach encompassing the organization as a whole, in place of monolithic structures and traditional line, staff, and project organization models. Strategic management needs to become more of a pluralistic political process, as opposed to a narrow technocratic concept—although without rejecting the insights of the rationalist approach.

Understood in this way, strategic management is a vital but underdeveloped element of internal modernization. Without it, the conservatism of bureaucracy might never give way to the new culture of shared responsibility for results, and the centrifugal forces unleashed by decentralization might result in chaos rather than a new order. On the other hand, if applied consistently and creatively, strategic management should become the core value added by central management in the new, decentralized local government.

NOTES

1. These studies are described in the first article of this series, and in the report published by the Berlin Science Center (Naschold, Oppen, & Wegener, 1997). The primary author directs the unit that conducted the research.

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