SITRA

Governments for the Future:
Building the Strategic and Agile State

Yves Doz and Mikko Kosonen
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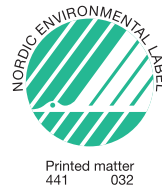
Preface

This report has multiple roots. First, Sitra's "Leadership program for public management" (2010-2012) found the pace of renewal in the public sector insufficient – primarily due to the lack of a shared direction, innovation and a fragmentation of effort.

Second, Sitra's change programs – dealing with welfare services and sustainability – have repeatedly encountered the same challenge: how to address systemic, cross-societal challenges involving multiple stakeholders in an effective way.

The common denominator and root cause of the difficulties is governance. To put it simply, Finland's – and many other countries' – governance model is outdated and cannot cope with the wicked problems and fast-changing environment around us. A more strategic and agile governance model is needed for countries to thrive on change.

The third root of this report can be found in the working history of the two authors. Professor Yves Doz from Insead and I have been collaborating closely for years in the areas of strategic renewal and governance. Our earlier work and experience provided a promising basis to address the governance challenges of nation states. Encouraged by many people and institutions – including the OECD – we decided to bite the bullet and write this report aimed at providing a theoretically sound but practical foundation for governments renewing their governance models and processes. In addition, Sitra – in its change agent role – needed to learn more about the governance mechanisms behind systemic change.

I hope you find this report interesting and useful.

Helsinki, August 18, 2014
Mikko Kosonen
President, Sitra

Acknowledgements

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1. Introduction

Unprecedented problems

Governments in industrialized societies are facing unprecedented problems on multiple levels. Old-style solutions – administered by isolated ministries from their traditional silos – no longer suffice, the problems faced by governments have evolved. Governments need to re-examine how they operate, incorporating new methods, such as thinking strategically around larger goals over longer time frames, adding flexibility to their policies and actions, and creating new modes of stakeholder co-operation.

What is different about the problems they now face? First, as a result of rapid globalization and technology development, the world has become more interdependent, volatile, and complex. An unexpected event in one part of the world can have a dramatic effect on another country, like the impact of Fukushima's nuclear tragedy, stemming from a "once in a century" earthquake and tsunami hitting this particular area of Japan, on Germany's energy industry. It is becoming exponentially more difficult to foresee and plan for the future.

Second, global problems have become much larger and more dangerous – climate change challenges all countries to co-operate in the effort to find a collaborative solution. Yet finding the right balance between ecological, social, and economic sustainability is very difficult on a country level and perhaps impossible on an international scale. Short-term economic interests easily trump longer-term ecological and social concerns, particularly when our neighbors are more affected than us. Cyber threats are ratcheting up the dangers facing nation states to an entirely new level, requiring instantaneous, borderless, and well co-ordinated action from all stakeholders. While climate change is too "long-term" and complex to occupy the concerns of decision-makers, the cyber threat is too "short-term" and pervasive for conventional, top-down hierarchies to address.

Third, each country and region has its own challenges, such as demography and industrial renewal. For example, while Finland's population is aging faster than any other country save Japan, it is also losing conventional jobs (as a result of globalization and automation) so precipitously that its welfare model may soon become unsustainable. Finland's private sector simply cannot anymore carry the costs of the growing public sector, i.e. commitments to provide healthcare, unemployment and retirement benefits, etc. Somehow, new engines of growth need to be created; meanwhile, productivity of the public sector must improve dramatically as its responsibilities toward an aging population multiply in both scale and scope. These challenges demand solutions that must be implemented consistently over decades, with the participation of a far wider array of actors than the government alone.

Fourth, with the welfare state now taken for granted, and having addressed successfully basic needs and risks, the expectations of citizens are growing – they demand customized, more specific services tailored to their individual expectations in a time of increasing fiscal pressure. Global social networks and short-term fashions and fads increasingly shape citizens' new expectations. This makes citizens' demands less and less predictable and more volatile.

At the same time, the media are hungry for results and expect ever greater transparency and participation. Politically, this is a challenging and explosive mix, easily slipping from the control of governments – policymaking is becoming more volatile and less predictable. As a result, it appears that the gap between a government's performance and what it needs to do is widening. A way must be found to address this.

The challenge

These challenges are systemic by nature. As a result, governments find them exceptionally difficult to deal with. Why?

Simply put, the governance models of most industrial countries were created to cope with a more orderly, predictable and less inter-connected world. Traditional hierarchical organizations and the logic of their policy planning and decision-making performed well in the stable socio-economic environment of the postwar decades, capitalizing on reconstruction, steady growth, and a young and growing population of hungry consumers moving up the economic ladder. Public institutions could operate with relative autonomy, stable budgets and clearly defined mandates and bureaucratic turf. Unfortunately, in today's turbulent, inter-dependent, lower-growth world, fewer and fewer problems can be addressed via this hierarchical and siloed model.

The immovable constraint of election cycles often precipitate short-sighted, expedient or rigid policies. This problem can be compounded by the nature of political systems. For example, the coalition governments typical of many parliamentary democracies necessitate a consensus-driven approach, which biases them towards incremental improvements and narrow specific policies catering to each and every coalition party. Moreover, sharing resources between stakeholders is very difficult in any political and/or administrative system. Once an agreement between politicians has been reached and enshrined in a "government program", it is virtually impossible to change it without "opening" the entire program to renegotiation. In this context the key question we are seeking to answer is "what capabilities can help to compensate for the inherent weaknesses of democratic governance models, while nurturing their strengths?"

The evolution of policymaking

As indicated earlier, the large hierarchical organizations and long-term planning performed well in the growing but simpler and more stable socio-economic environment of the post-war decades.

Over time, the growth of the welfare state in the 1970s and 1980s fostered conflicting imperatives: while the organizational specialization of ministries, departments and agencies increased, to succeed they had to learn to co-operate in order to address the increasingly complex, inter-dependant nature of emerging issues. To make things worse, by the 1990s citizens began to take it for granted that the welfare state could minister to their individual needs, particularly those of a non-routine nature. This required more customized and nuanced responses. By the beginning of the millennium, the growing need for more integrated approaches necessitated the development of horizontal policies in many countries that had to cross traditional bureaucratic boundaries (Growing interdependencies and non decomposable systems as sketched on Figure 1.1).

However, with the current hierarchical government machinery, creating and then implementing horizontal policies is extremely difficult. Bureaucracies operating

Figure 1.1. Evolution of policymaking
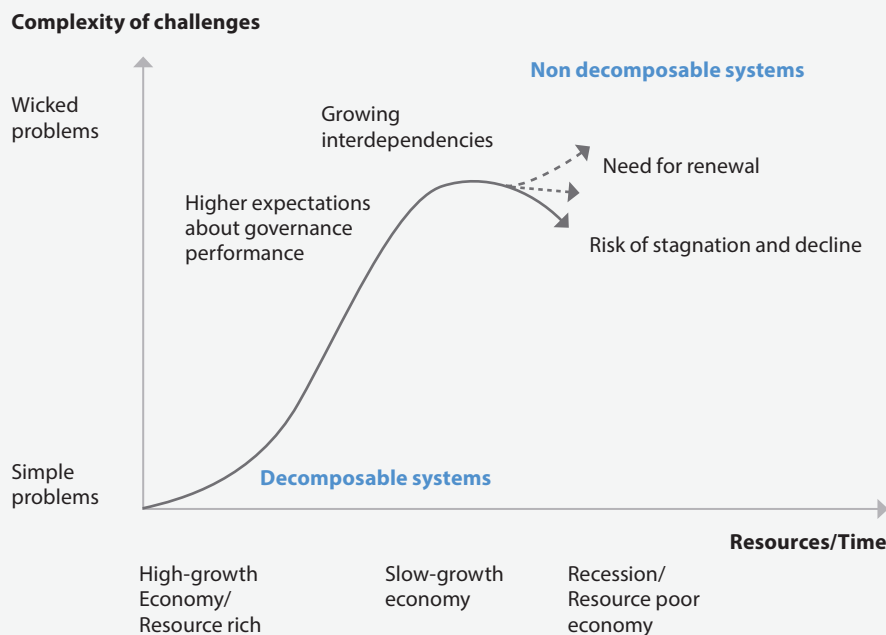
from their traditional silos are simply too rigid to cope with the demands of citizens and the new challenges that industrialized societies now face (OECD, 2005; 2011).

According to Snowden and Boone (2007), Kurtz and Snowden (2003) and other observers of systemic complexity, governments need to approach these problems in a more holistic and strategic manner, taking into account their complexity. While some problems are simple and can be addressed with traditional approaches, many policies need to incorporate a far wider array of contingencies and inter-related factors in their search for solutions – decision-makers need to dig deeper in their search for solutions, seek input from farther afield, and execute as a "single, unified government" rather than from their traditional bureaucratic silos.

Unfortunately, in many cases, governments have responded to these challenges by decentralizing their activities and decision-making processes as well as by deregulating markets. These free-market style responses, however, have often proven unsustainable since they do not take into account the growing interdependencies and shared value–creation opportunities across policy domains and geographical areas. The deficiencies of hierarchical planning and rational decision-making as well as the limit of market-like arangements in dealing with complex social problems are well known.

Over 50 years ago, Charles Lindblom, a keen observer, noted that the policymaking process was often mired in incrementalism in analysis, decision-making and implementation, and coined the now well-accepted term "muddling through" to characterize such a process. Governments "muddled through" rather than made rational and comprehensive analyses that led to fundamental policy reforms (Lindblom, 1959; 1979).

Faced with the inherent limits of "muddling through", policymakers persist in holding up the "rational-comprehensive" approach as an ideal in spite of the difficulties of implementing it. The growing interest in "evidence-based policymaking" (EBP) is a recent manifestation of this conviction. Unfortunately, even with mountains of "hard" data and more sophisticated analyses, EBPs are failing to resolve the fundamental dilemmas. Beyond EBPs, which work best when applied to narrow questions in stable environments, governments need new interpretative frameworks and practices for addressing cross-governmental problems in a fast changing and increasingly interdependent environment (Mulgan, 2009; Head, 2010).

While "muddling through" has often proven more effective than hierarchical planning in dealing with complex policy issues, it displays serious weaknesses in times of rapid change. The incremental approach often leads to sub-optimal results and unnecessarily restricts options, particularly when more fundamental adjustments in policy are demanded: governments find themselves at the mercy of events, reactive rather than proactive. "Grand issues" are usually "simply left off the agenda" (Lindblom, 1979:523). And yet, with the advent of the welfare state the most difficult problems in society are now left to governments to resolve.

Not only does "muddling through" rely on competing interests to point out relevant information to decision-makers, but it favors the opinions of established interests – new approaches tend to be ignored, in particular those that weak (or emerging) interest groups might offer (Olson, 1982). Moreover, day-to-day struggles and negotiated adjustments between competing political interest groups often exclude long-term issues from the agenda. Hence, the incremental policymaking approach reinforces the tendency to choose shortsighted approaches (Lindblom, 1959).

Growing strategic and organizational rigidities

Beyond the adoption of hierarchical organizations and "muddling through" approaches, we found the following sources of rigidity in the public sector: strategic atrophy, the imprisonment of resources in bureaucratic silos, and diverging commitments.

Strategic atrophy. Under stable conditions, positive feedback over a long period of time tends to reinforce established assumptions, perceptions, behaviors, and values, creating a self-satisfied and coherent world view (Huff and Huff, 2000). Acting as a filter, this view inhibits political and government officials from formulating new visions, and leads them to instead re-confirm the opinions they hold and discount anything that challenges them. As a result, collective learning slows down, leading to a kind of tunnel vision and restricting the range of alternatives considered to the ones already in practice. A clear division of labor into bureaucratic silos further contributes to this ever-narrowing tunnel vision.

In addition, because the interests of politicians rarely extend beyond the next election or even the next press event, public sector organizations and the civil servants tend to operate with a similar short-term horizon – they are forced to continually accommodate the rapidly evolving political interests of elected leaders. Moreover, annual budgeting processes make long-term commitments and investments difficult for policymakers to pursue and

implement as few incentives for longer-term performance exist (OECD, 2005).

Finally, public sector leaders seldom get rapid feedback regarding their decisions and, even worse, the results of public policies are often hard to assess or even understand, particularly when dealing with multifaceted challenges. The more complex the challenge, the less reliable the "evidence" of evidence based policies. Any effective feedback mechanism would require continuous policy analysis, strong foresight capabilities, evaluation, and learning, not to mention a strongly shared knowledge base and values (OECD, 2005; Fuerth and Faber, 2012). Unfortunately, at the strategic policymaking level, very few governments have developed such a capacity. Without accurate feedback, complacency and a conventional wisdom may result from a variety of factors, including international recognition of success in economic competitiveness, education and even poorly defined "well-being" rankings.

Resource imprisonment. For a variety of reasons, the mobility of resources for alternative uses remains restricted and can be reallocated only with the greatest difficulty. First, individual departments, and their leaders, jealously guard the resources that they are "entitled to" by the budgetary process. Moreover, conventional legacy planning, combined with "zero-sum" budgeting as well as laws and regulations that tie funds to specific line items, leaves little budgetary flexibility, even when new policy priorities emerge.

Second, service delivery systems are highly specialized and tightly integrated, which also constrain resource fluidity. As such, they make engaging in new activities or the sharing of expertise and resources among different organizational units difficult. In this case, the demands of efficiency and agility work at cross-purposes.

Third, the infrastructure and processes for collaboration and flexibility are either completely lacking or insufficient in most countries. Not only are practices such as common data banks and information sharing on request underdeveloped, but job rotation and training outside of one's traditional silo are rare. This hinders both the development of trust and commitment to joint action across units.

Fourth, the public sector can't always count on the mobility and aspiration of its members to break resource imprisonment. Given the lack of market pressure and competition, public sector positions tend to be more secure; personnel changes and renewal are also less frequent. This immobility also fosters an in-grown mentality among the "lifers" – politicians can come and go, but the bureaucracy is permanent. Moreover, long-lasting relationships

with various stakeholders, who develop social ties and even an alignment with specific interest groups, may further reduce the flexibility of resource-allocation processes. Entering unfamiliar areas or forging new relationships also receives less attention and resources than do established ones.

Fifth, competence gaps and insufficient talent may inhibit the pursuit of new undertakings. Changing strategic direction often requires new capabilities that may not immediately be available and take a long time to develop. Without them, the reformulated strategic goals of an organization may be unfeasible or mismatched with an organization's existing competences.

Finally, the respective roles and responsibilities of elected leaders and permanent government officials often lack clear definition. This may also lead to resource "gridlocks". On the one hand, political leaders may become "prisoners" of their ministry's agenda or procedures. On the other hand, strong "intermediaries", such as politically appointed state secretaries, may interfere, hindering fact-based policy preparation and objective policy analysis. In both cases, resource allocation is impacted, sometimes severely.

Diverging commitments. Meanwhile, isolated silos within the bureaucracy, with their growing size and specializations, may focus on increasingly limited and parochial goals. The organizational units of senior civil servants demand the most attention, while bureaucratic and career incentives focus their attention on immediate goals. Moreover, past successes and employment stability deepen social bonds and networks, creating a mindset that also hinders change, perpetuating ever narrower belief systems, ideologies, and preferences (Seo and Greed, 2002). Fear of social opprobrium may also deter civil servants from risking "rocking the boat" with radical ideas or initiatives (Bohm, 1994). The right to good faithed error is absent. In effect, government officials may not diverge from their official mandates and commitments, or if so, settle for very modest action, often unable to bring together key stakeholders to collaborate in the pursuit of common interests. This is the precise opposite of what they should do to address the complex and inter-related problems, as described above.

Furthermore, in times of scarcity and limited resources, as is occurring at present, harmful organizational turf battles can arise, in particular when budget allocations become a zero-sum game (OECD, 2005) or an organizational "truce" between competing claims (March & Olsen 1976).

Strong leaders with proven track records in their respective fields may also inhibit dialogue and critical thinking, in particular if they are overawed by each other's expertise and wish to avoid turf battles or even to engage each other in conversation. Such specialists may be unable to develop a shared agenda that integrates their respective policies into a cohesive whole with groups outside of their own bureaucratic silos. Expertise-based career tracks and specialized promotion criteria tend to amplify this problem. Moreover, inflated egos may also surround themselves with sycophants, that is, people who have similar values and social or educational backgrounds and express no difference, which serves only to drive out meaningful dialogue.

Media and public scrutiny of governments is on the increase, with demands for transparency a prerequisite for the "legitimacy" of their decisions. In this context, a more innovative use of resources is often more difficult to justify, measure, and assess, leading instead to a heightened sense of risk regarding innovation when compared to the status quo or standard operating procedures. To satisfy the demands of their careers and receive good evaluations of their performance, civil servants may need to stick to a narrow interpretation of laws and regulations. They also need to remain sensitive to prerogatives of ministers around expressing priorities for change and innovation. Mistakes also garner far greater attention from the media than does creative success, bringing higher personal and political costs into consideration. As a result, potential public sector innovation opportunities often go unheeded.

Not only has risk aversion come to prevail, but also a form of inward looking defensiveness, sometimes heightened by the commitment to New Public Management (NPM)[1], whereby governments tend to focus internally on their own activities, to the detriment of their broader roles and having a deeper impact on the national economy and society. As Peter Ho, the long serving Head of Civil Service of Singapore put it in a terse reminder: "the real issue is not the efficiency of government but what government contributes to the adaptive efficiency of the country!"[2] Government policies and activities impact not only public sector organizations themselves but also society at large, as the only agent to have broad social system stewardship responsibilities (Dunning, 1992).

Incongruencies between policy domains – their context, where they are conceived, who is charged with implementing them – can also hinder their integration or experimentation. For example, because environmental policies are often shaped by international agreements, they may conflict with technology innovation policies that are usually national (and sometimes nationalistic) in scope. Tools may also vary among policy domains. Subsidies are commonly used in innovation and industrial policy, whereas environmental policies often use fiscal incentives and regulation. Time frames across policy domains may also create divergences. Environmental policies have very long lead times whereas cyber security policies have to be evaluated frequently due to fast technology evolution.

The need for a new approach

In the global socio-economic environment – more rapidly changing, uncertain, complex, and interdependent – a new, strategic model of public sector governance needs to emerge. It must resolve the problems that confront the hierarchical and incremental policymaking approaches. This report proposes a framework and related practices for doing so. The model we propose is more strategic by nature, achieving purpose and flexibility. It also puts forward a more collaborative and integrative priority, not only in terms of new holistic policy linkages, but also to bring civil servants out of their bureaucratic silos for implementing cross-governmental projects.

In Chapter 2, our report identifies and describes the new governance mechanisms – the enablers – that can make the government more strategic and agile. Strategic agility (Doz and Kosonen, 2008) is the capacity of organizations to proactively identify and respond to emerging strategic challenges so as to avoid unnecessary crises and carry out strategic and structural changes in an orderly and timely manner. We found that the three main vectors of forces that contribute to strategic agility do apply to governments (Doz and Kosonen, 2014). They are:

1. Strategic sensitivity: The early awareness and acute perception of incipient trends, converging forces, risks of discontinuities, and the real-time sense-making of strategic situations as they develop and evolve.

2. Resource fluidity: Fluidity in fast mobilization and (re) deployment of strategic resources or funds, people and competencies providing the operational underpinning for strategic agility.

3. Collective commitment: The ability to make and implement decisions that mobilize multiple subunits to sustain and integrate collaborative action.

Beyond promoting adaptation and the orchestration of change across society in a strategic and agile fashion, governments are also mandated to maintain a high enough

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1   New Public Management (NPM) comprises a series of management tools and practices anchored in setting up focused specialized government agencies each with specific mission, measurable objectives and key performance indicators inspired by decentralization and management by objectives approaches adopted in the private sector.

2   Comment made at the workshop of the Small Advanced Economies initiative, Copenhagen, November 12, 2013

degree of stability in their core policies sufficient to reduce uncertainty and complexity. Predictability is key in many policy areas, such as energy policy, or taxation, for all stakeholders. Companies can't formulate their strategies, let alone implement them or invest, in a policy environment that is too volatile. So, strategic agility is a reqired capability, but one to be used only with discerning measure.

In addition to introducing a new framework for a more strategic and agile government, this report shows how strategic agility manifests itself in practice – in two small and open economies: Sweden and Scotland. After introducing a new integrated framework for strategic and agile national governance, and analyzing enabling governance practices (Chapter 2, illustrated by Sweden), we move on to describing the steps in the purposeful development process towards strategic agility (Chapter 3, illustrated by Scotland). Chapter 4 then outlines the key contingencies and enabling conditions, in particular around skills and behaviors, to strategic agility. Finally, Chapter 5 diagnoses the status and presents recommendations for steps that should be taken in one particular country, Finland.

We hope that this report will help public-sector leaders (both politicians and civil servants) understand and manage the needed change process towards a more strategically agile state at an acceptable level of risk.

2. Enablers of strategic agility

Complex problems can be handled, but very seldom can they be definitively "solved" or "fixed". Conventional action plans – as a set sequence of moves to solve a complex problem – executed from within a single ministry or bureaucratic silo can rarely succeed: given the myriad of interdependencies and indiscernible links to unpredictable and unobservable issues, such plans inevitably fall victim to "surprises". Unexpected second- or third-degree consequences will defeat the best-laid plans because these plans ignore the systemic context of complex problems. We need a new approach to policymaking, with a capacity to address complex problems as they arise in real time.

The three enabling vectors of strategic agility – strategic sensitivity, resource fluidity, and collective commitment – are each required and must be developed together, to function in an integrated manner, in a complementary fashion, where their composing forces reinforce each other, strength in one vector alone being of little value. Let us first examine them one by one in turn, and then consider their interplay, in the context of Sweden.[3] The Swedish government has systematically developed the factors underlying strategic agility since the 1990s and Sweden offers today a rather complete profile of strategic agility enablers.

To foster **strategic sensitivity**, the first key vector of strategic agility, government leaders need to be able to gain insight into evolving situations within a complex environment. Strategic sensitivity results from the interplay of alertness and attentiveness, foresight, experimentation, pattern recognition, real-time analysis and sense-making not as a lonely act but through dialogues which are both externally oriented and internally participative. In contrast to forecasts, which aim at precisely predicting the future, foresight is an attempt to paint a tableau of many possible futures and develop an understanding of what various futures might entail. This spectrum of possibilities should allow one to avoid being overwhelmed by unforeseen events. For instance, when the Israelis built the first skyscrapers in the heart of Tel Aviv, they did consider the possibility of Palestinians flying hijacked airliners into them, however remote such a possibility, and planned how they would handle such an emergency. Unfortunately, because this information was not shared, the U.S. government panicked when the 9/11 attack on the World Trade Center Towers occurred, being initially awestruck and paralyzed. Foresight helps one

to recognize the possibility of "black swans", (something we have not seen yet, may never see, but may well exist)[4], to anticipate and stave them off, or at least if the unlikely and unexpected comes true, to react to them constructively rather than be in awe with surprise and fear.

Foresight is necessary but not sufficient to strategic sensitivity. Israelis considered a 9/11-like scenario because they were intensely focused on the Palestinian threat and ruled nothing out. To the U.S. government, the possibility of someone carrying out an act of war in the domestic U.S. was not only unexpected and unprecedented, it was utterly implausible. No attention could be directed toward such a possibility (Klein 2013).

Strategic sensitivity does not grow in a "black room", not only does it need superior information and intelligence but it also benefits, and emerges from interpretative dialogues around tentative assumptions and hypotheses that provide a basis for structured reasoning about possible futures and a guidance for data collection and analysis as events unfold, supporting, invalidating or revising one hypothesis or another. For foresight to heighten strategic sensitivity key options need to be discussed more openly, in the government, the administration, business circles and civil society than where strategy remains the purview of the prime minister and a few ivory tower staffs. This wide-ranging and far-reaching discussion of policy options is characterized by a high level of tension and attentiveness, and by a rich, intense, and open set of dialogues, grounded in the specifics of the country's situation and held in a conceptually precise and articulate language.

Deep intellectual connectedness is a necessary but not sufficient condition for change. People do not easily change their opinions and beliefs unless they see that the new approach or solution works in practice. Seeing is believing. This is why small-scale policy experiments are important "vehicles" not only for bringing up new insights on new complex problems (where no existing evidence exists) but also for engaging decision-makers in real action with manageable risk.

However, unless one can mobilize resources to take action in a timely manner, strategic sensitivity is valuable but not useful.[5] Without strong purposeful redeployment of human and financial resources, government action will devolve into "muddling through".

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3   Among the countries studied in the Government for the Future project we selected Sweden as an illustration because the Swedish government has considered the issues underlying strategic agility at least since the 1990s, and Sweden offers today a rather complete profile in term of enablers.

4   The term "Black Swan", an extremely rare variety of swans was used by Nassim Nicholas Taleb as a title for his book (2007) on the issue of low probability high impact events, and has now gained currency to refer to such events.

5   "Without action the world would still be an idea", argued General Doriot, the visionary founder of INSEAD.
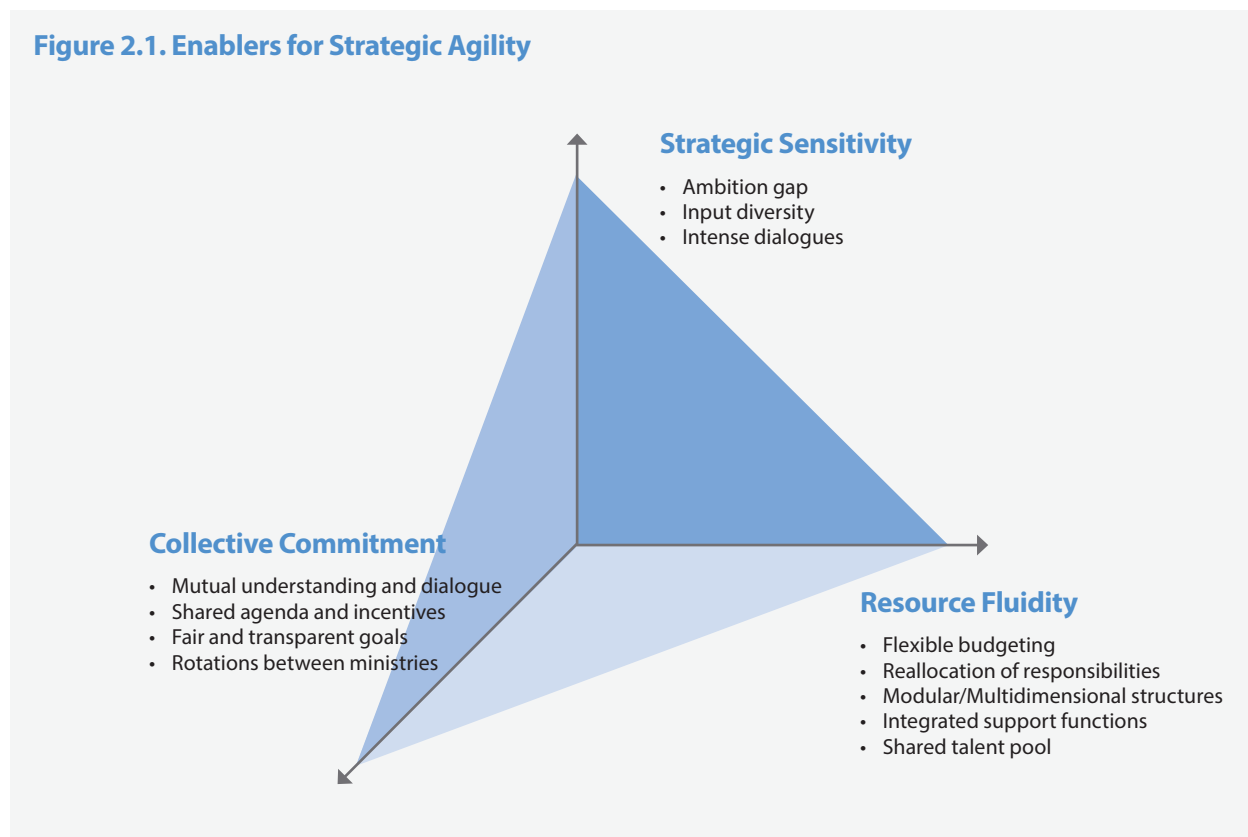
Resource fluidity is the second key vector of strategic agility. This calls for funds, talent and expertise, technical means, and other resources to be harnessed quickly for purpose as needed, rather than parceled out in accordance with prior plans; resources must not remain scattered or unfocused because of rigid budgetary rules or procedures. The issue here is not to be locked in traditional mental frames, set patterns of resource allocation and inter-ministerial budgetary stalemates, but to respond through the allocation of resources to strategic situations as they develop, good or bad. Resource allocation fluidity, however, is also highly emotional: it requires a willingness to relinquish autonomous control of resources. This calls for mutuality and trust, and for strong integrative negotiation skills, perhaps absent in many governments. In particular when governments are driven by political coalitions and are faced with decreasing overall budgets, and general resource scarcity, collaboration becomes more difficult and the agreement on resource allocation highly political.

Of course, fluid resource reallocation is impossible without guiding strategic principles as well as a collective engagement, within government, to make joint decisions all ministers and their staffs mutually commit to, otherwise it would only worsen budgetary rivalries and bureaucratic fights over resource allocations. Hence, a **collective commitment** to joint government action, showing leadership unity on key decisions, is a necessary precondition; this is the third key vector of strategic agility. The government – both at the Cabinet level and between senior civil service leaders – needs to act as one, as a unified team, with a commitment by individual members to collective action. Cacophony, confusion, and bureaucratic rivalry undermine the very possibility of energetic action, collective or individual. Lack of true commitment will also lead to a kind of fake public consensus, and lip service paid to key policy decisions while dissent, fear and special interests continue to operate under the guise of serving the public interest. Short of collective commitment, complex problems cannot even be approached constructively, and new challenges are likely to turn into enduring problems for future governments.

In this chapter, we will look in more detail at these three distinct, yet inter-related vectors of strategic agility in the government context: strategic sensitivity, resource fluidity, and collective commitment and review the key forces making each vectors, as outlined graphically in Figure 2.1 below.

Figure 2.1. Enablers for Strategic Agility

Strategic Sensitivity
- Ambition gap
- Input diversity
- Intense dialogues

Collective Commitment
- Mutual understanding and dialogue
- Shared agenda and incentives
- Fair and transparent goals
- Rotations between ministries

Resource Fluidity
- Flexible budgeting
- Reallocation of responsibilities
- Modular/Multidimensional structures
- Integrated support functions
- Shared talent pool

Strategic sensitivity

Developing strategic sensitivity is primarily a cognitive exercise, whereby comprehensive information inputs nourish collective intelligence and dialogues, which the government then integrates and assesses and, with parliamentary support as needed, may incorporate into policies and actions.

Emotions play a vital role in bringing keen alertness to these processes. Discomfort can sharpen strategic sensitivity, in part because it often accompanies an awareness that current policies and actions are falling short of goals. We call this the **ambition gap**. To overcome complacency, ingrained thinking routines, and obsolete standard operating procedures (Schön, 1973), crises often shed light for decision-makers on a potential (or foreseeable) failure (Festinger, 1957). This recognition can encourage individuals and organizations to reflect on their current conceptual frameworks and behavioral patterns, forcing them to re-think their current situation and operating environment.

Beyond an existing discomfort, to create an ambition gap leaders can use:

- Stretch goals and promises – an ambitious vision or commitment – to raise ambition beyond what is seen as possible. John F. Kennedy's "We will send an American safely to the moon before the end of this decade" commitment is a good example of this.
- "Burning platforms" showing that current policies and developments lead to crises and are simply not sustainable.
- Multiple and contradictory goals to push in different directions as a way to trigger a search for creative solutions that go beyond the normal, to force people to think hard about reconciling contradictory goals rather than follow "marching orders", taking into account different perspectives and priorities, transcending routinely accepted trade-offs.
- Small-scale experiments for bringing up new evidence on complex problems. If an experiment or simulation works better than the established practice, the resulting contradiction can spark a critical re-evaluation of current practices and prepare ground for further discussion and development of alternatives.
- Strategic intelligence activities – foresight work, scenario planning, evaluation, and benchmarking comparisons with the practices and achievements of other governments – to grasp and highlight policy outcome shortfalls, identify incipient problems and opportunities, avoid or anticipate nasty surprises and develop "just in case" contingency plans, learning from the experience of others.

- Using independent "think tanks" to provide new insights and alternative perspectives.

In sum, strategic decision-makers need to operate on the edge, beyond their comfort zones in a "stretch and stress" zone with eyes and ears wide open. While emotional involvement is useful, if too strong it can lead to dysfunction, impaired judgment, and bias. Nonetheless, when dialogue is "for real" rather than "for show", some tension is inevitable and can help – if it does not reach toxic levels.

Strategic insight often originates from the combination or collision of new and/or original sources of information. This is **input diversity**, i.e. contributions of experts and stakeholders from various backgrounds, traditions, and specializations. There are a variety of ways through which such information can be gathered: cross-functional and inter-organizational vision formulation, strategy and foresight processes, small-scale experiments, etc. These processes should not only involve the top leadership and policy specialists – wider participation by various stakeholders, experts and observers enhances diversity. Furthermore, modern communication technologies and social media can enable the general public to contribute with the "wisdom of crowds" while improving societal commitment to the new direction (Mulgan, 2009).

Governments can also use committees of experts from multiple fields as providers of fresh inputs to policymaking. This practice should enable them to freely design new alternatives or solutions before policy recommendations are brought into the political process. External experts often can better provide analyses of relevant systems, bring out their causal interdependencies as well as shared concepts, and articulate new frameworks that encourage the re-interpretations of strategic questions (Doz and Kosonen, 2008; Mulgan, 2009).

Unfortunately, most governments rely on known-quantity experts from their ministries and agencies to draft new policies – or to staff the committees or task forces that work with the representatives from stakeholder groups. Both approaches virtually guarantee that nothing will change.

A rich and sustained effort at dialogue around policy options and their underlying assumptions and premises is also necessary to encourage a productive policymaking process. However, developing and maintaining an intense, **high-quality dialogue** among all the right people is a challenge for a variety of reasons:

- Organizational boundaries and standard practices tend to separate experts, discouraging the development of

synergistic knowledge, as do functional or hierarchical divisions.

- Locational separations hinder creative exchanges, particularly those that tend to occur in serendipitous meetings and conversations, which shared physical premises facilitate (Daft and Lengel, 1986).
- Most decision-makers are so preoccupied with daily operational tasks that they have little time to reflect on strategic issues. (Mulgan, 2009).
- Lack of shared vocabulary among experts, and between experts and operating professionals can inhibit high-quality dialogue. Experts simply may not understand each other. The language of professionals may be trapped in specific contexts and that of experts too conceptual to meaningfully fit these contexts (Doz & Kosonen, 2008, p.67; Brannen & Doz, 2012).

Resource Fluidity

Resource fluidity is the capacity to quickly mobilize and (re)deploy resources, funds, people, and expertise for strategic purpose. It provides the operational underpinning for strategic agility. Resource fluidity must go hand in hand with strategic sensitivity. If key resources cannot be effectively and swiftly reallocated to areas of opportunity or crisis, strategic sensitivity can achieve nothing.

The issue here is to respond to strategically important situations as they develop, good or bad, with a purposeful reallocation of resources, as needed. This requires policymakers to grow beyond narrow perspectives and traditional mental frames, consider common optimum resource deployment rather than only parochial sub-unit interests, and overcome budgetary turf stalemates. On one level, the issue is cognitive: how can policymakers recognize when a policy or practice is no longer appropriate? By testing the underlying premises and hypotheses on which a policy rests and discovering they no longer apply. Perhaps because they reflect circumstances in the distant past or ideological biases that have proven ineffective.

Unfortunately, this often poses a policy–rationale problem: because strategic challenges are multidimensional, microeconomic utility functions for the public sector usually fail to calculate rates of social return for alternative activities or investments: their results are ambiguous, open to personal preferences, rendering it virtually impossible to identify and analytically defend the options under consideration. Moreover, contextual interdependencies between policies make cost/benefit calculations of the complete policy mix and its constituent policies even harder to assess: the bundle of policies might bring more value than the sum of its separate parts. With no clear financial or utility value, comparisons or other agreed-upon criteria regarding the expected net benefits of alternative policies, we are forced to rely upon common priority-setting rules and shared ambition, i.e. consensus opinion or bargaining.

Even when policy bundles with superior aggregate public value can be identified, freeing up public sector resources inevitably presents an entirely different set of challenges. Public sector hierarchies tend to jealously guard their established budget appropriations against alternative uses.

Governments driven by shaky coalitions facing the politics of austerity (highlighting conflicts) compound these difficulties by articulating minutely detailed lists of policies, negotiated and bargained between parties. As an embodiment of political truce, these policy commitments become unassailable. But seldom do they constitute a strategic bundle of policies, rather they tend to reflect disparate party politics catering to specific interest groups.

In addition, governmental management systems are usually designed for functional optimization of available resources, not for dynamic reallocation or sharing of resources for purposes outside of their customary silos. Moreover, the incentive systems of public organizations are often geared towards the evaluation of their performance of the specific activities and/or processes in their immediate and legal purview, rather than the achievement of wider societal goals.[6] Governments may also have to contend with strong reactions from specific interest groups, particularly in the event that reallocations have major distributional impacts (Mulgan, 2009). As such, resource fluidity requires mutuality and trust – a willingness to relinquish control and a flexible and inclusive process of integrative negotiation.[7]

A number of managerial practices – or enablers – can help in overcoming resource imprisonment, i.e. the reluctance to share resources in a fluid manner across government. First, governments can use adaptive financial resource allocation, i.e. **flexible budgeting**. Its key principle is to dissociate a unit's past performance from expected resource commitments in the future (Doz and Kosonen, 2008). To do so, resource allocations should instead be tied to the government's strategic objectives rather than held hostage to legacy commitments. Unfortunately, most countries continue to employ rigid budgetary practices. Remedies might include:

- Basing financial allocations of the ministries on clearly articulated assumptions and performance goals rather than rigidly defined line items.

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6   Management by objectives principles, as adopted from the private sector, represent a typical New Public Management (NPM) cornerstone.

7   Integrative negotiation aims at defining and committing to packages of mutually supportive value creating policies, as opposed to the distributive negotiation mindset all too often present in politics where value capture prevails over value creation to no one's real benefit.

- Making resource allocation conditional on these government goals.
- Designating a portion of public sector financial resources as belonging to a common pool, to be used when new needs arise (Mulgan, 2009).
- Fostering mobility and reassignment of civil servants across ministries and departments.

Second, government can **reallocate responsibilities**. This would improve resource utilization and break rigid, siloed hierarchical relationships. In theory, the roles and responsibilities of specific ministers and/or their ministries and agencies should depend on a fit to strategy criterion regarding their mission. In public service areas that involve low fixed assets and limited specialized assets, such a reallocation should not be very difficult to accomplish. However, in practice this can be very difficult in countries such as Finland, where ministries and ministers are endowed with autonomy that is written into its constitution.

Third, a **multidimensional organization**, with distinct units as providers and users of resources in central government, can enhance integration. In this organization, horizontal cross-ministerial programs, with their own budgets, are mandated to call upon resources from multiple ministries, departments, and agencies for the purposes of resource mobilization towards cross-unit policies. Finally, the appointment of dedicated ministers to run the horizontal programs, as exists in the UK, would further strengthen this.

And fourth, governments might also **integrate support functions**, such as financial management, HR, and IT across ministries, i.e. shared IT management infrastructures and common people management principles would enable the fast redeployment and sharing of information and human resources. A key enabler is a shared information system architecture, according to which decentralized services' IT applications are developed to conform to a common platform compatibility standard, thereby avoiding fragmentation and the multiplication of disparate systems. Shared ICT systems could also automatically harmonize operating models of various government units, which further enhances transparency and resource fluidity.

In addition, government-wide human resource development and management could create a **shared talent pool** of key government officials; they could benefit from systematic professional development, both in the form of training and job rotation. Holding the same job for too long often leads not only to tunnel vision, but sometimes

also to increasingly stunted dialogue and even diminishing personal engagement. New responsibilities give experienced leaders fresh challenges and force them to learn new skills, emphasizing leadership and management capabilities over specialized substantive expertise.

This could create a cadre of current and future leaders, whose development would be supervised collectively by the top leadership team in central government. This would not only provide a flexible source of managerial talent for new strategic needs, but also build a shared understanding and collaboration among senior civil servants.

Collective commitment

Collective commitment and unified leadership are the third leg on which strategic agility stands. The behavior and skills of politicians in power, senior appointed officials, and career civil servants is the most important element of strategic agility. They must be able to: 1) recognize the issue and weigh their options; 2) negotiate an agreement on how to use the resources; and 3) commit themselves and their organizations to undertake effective, integrated action. Without such a commitment from them, the measures supporting enhanced resource fluidity would only aggravate bureaucratic rivalries.

A collective commitment of this kind, as a source of energy and drive in implementation can develop only from a deep cognitive and emotional accord of leadership unity. Beyond principles and policies such as "Cabinet responsibility", for the most part it should emerge from repeated, successful collaboration in policy implementation across ministries and departments. Efficient co-operation and co-ordination require that key decision-makers understand each other's points of view and perceive their collaboration as mutually beneficial, rather than the zero-sum struggle against each other for resources that many bureaucracies perpetuate. The process must also, of course, be politically legitimate.

To promote **mutual understanding**, a dialogue of high quality – honest, informal, and continuous – must not paper over conflicts of underlying assumptions and policy frameworks. High-quality dialogue cannot develop without sufficiently overlapping areas of expertise, which systematic job rotation can encourage. Public sector leaders – both political and administrative – should also have sufficient time and opportunities to exchange views outside official meetings, as a way to get to know each other's personal motives, values, and professional interests and goals. They should also have enough time for open-ended substantive meetings, in which they can address larger strategic questions outside of day-to-day operations. The

optimal result of this process should be a mutual understanding and trust in close co-operation and co-ordination. Beyond this, the process requires a pan-governmental agenda, with shared goals and related incentives that focus leadership attention on common challenges instead of the typically parochial, sub-unit agendas and goals.

The primary mechanism to create a **shared agenda** and related incentives should be a strategic program or "manifesto" that emanates from discussion and negotiations by the top leadership in the government. This may both provide a common strategic framework within which to motivate the various policies as an effective value creating policy bundle and highlight which policies need collaboration across ministries. These constitute the core of a shared agenda. The other policies can be implemented, within guidelines and subject to control, by the various ministries individually. However, such a strategic program or "manifesto" – if not sufficiently clear or without consistent and dedicated follow-through – will be challenged or subsumed by other agendas. One of the most common sources of competing agendas comes from the ministries and departments that represent continuity and traditional services within the government – they operate in accordance with what they perceive as their own, long-standing mandates and draw all available resources, to the detriment of cross-ministerial policy initiatives. Therefore, government priorities in a shared agenda must be few, tightly focused, and internally consistent. They must also have measurable progress indicators.[8]

A shared agenda and related incentives also enable decision-makers farther down the hierarchy to make decentralized decisions with their superior knowledge about local circumstances while, at the same time, acting in a way consistent with the direction in which the rest of the government is heading.

It is also crucially important that the goals and targets of various government entities are **transparent and fair** in the eyes of one's peers. If the details of a colleague's goals and expectations are obscure or opaque, it is difficult to support him/her. One way of achieving this is to have open discussions about each cabinet member's targets vis-à-vis their colleagues' and the wider, societal, outcome-driven government program/manifesto.

Finally, **rotations between ministries** also enhance collective commitment, not only resource fluidity and strategic sensitivity. True dialogue and collaboration between ministries (and agencies) is much easier if people understand and appreciate the perspectives of their counterparties.

Strategic agility as an integrative capacity – Case Sweden

The last part of this chapter aims at showing how the three vectors of strategic agility manifest themselves and interact in practice. As discussed in the beginning of this chapter, strategic agility is a systemic capacity that needs to be developed in an integrative manner. Strength in one of the vectors of strategic agility does not mean much if the other vectors are not developed in harmony.

In practice this means that the configuration, in other words the mix of enablers relied upon (and discussed earlier in this chapter) matters. Some of the enablers are more capability enhancing (like input diversity) whereas some are more integrative (like intense communications) by nature. Some of the enablers may also be more critical than others. This also means that some strategic agility configurations are more powerful than others. A rich and complementary configuration provides more strategic agility than a poor and fragmented configuration – no matter how many enablers one has in place.

We will next demonstrate how strategic agility manifests itself in practice in one small and open economy, Sweden.

Sweden has been systematically developing its central government operating model and practices for the last three decades. Following the chronic budget overruns and financial difficulties in the 1980s and early 1990s, a series of reforms attempted to restore decision-making powers to the political leadership for purposes of a return to financial rigor.

In 1996, it was recognized that the government was divided into sectors – political objectives were rarely translated into policies in the ministries and had minimal impact on the policies pursued by non-political staff. Furthermore, the government was unable to cope with international challenges. Cross-ministerial co-operation was weak.

In order to overcome these weaknesses, the Swedish government was reorganized in 1997 into a single body, ending the autonomy of individual ministries; it was a way to provide a comprehensive, flexible, and efficient operating model that would enable the government to competently realize their political agendas. Since then, government offices in Sweden have consisted of the Prime Minister's Office, the ministries, and the Office for Administrative Affairs.

In addition to the ministries, each central agency reports legally to the government as a whole, rather than operate under the jurisdiction of one particular ministry as they had in the past. This reflects the collegiality norm that guides decision-making in the Swedish government, according to which all major decisions are taken jointly by ministers as a collective body – individual ministers no longer operated

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8   Because they address complex problems that need cross-ministerial collaboration, these priorities and the policies attached to them are unlikely to be precisely measurable, evidence of success or failure emerges over time, and policies may also have unintended consequences, some good, some bad. So rather than the illusion of goals, regularly reviewed progress indicators around which to pursue grounded policy dialogues are key.

autonomously in their respective ministries. The prime minister in Sweden now functions as head of the government offices and appoints ministers, assigning their portfolios as he/she sees fit. The ministers then oversee their respective portfolios in close collaboration with their colleagues.

The government in Sweden has the authority to allocate funds between the ministries within the financial framework approved by the parliament for the government as a whole.

Strategic sensitivity

Ambition gap: Sweden is known for its active promotion of human rights and the so-called "Nordic model" as a societal ideal. This vision and related ideals have guided Swedish politics for decades, regardless of the political party in power. The long history of the country, never conquered, together with achievements on many fronts, has endowed the Swedes with strong self-confidence. As a result, the Swedish government sets ambitious goals and is willing to question and improve on them.

Input diversity: Sweden – like many other countries – has been forming committees to address cross-governmental policy challenges for years. Whereas in many other countries such committees have been on limited effectiveness the Swedish government has been able to make good use of them. Instead of using only civil servants linked to specific ministries to prepare policy recommendations, the Swedish government often assigns committees of inquiry that include outside substantive experts from various fields. The ministers concerned appoint the members of the committee, which then brings proposals to the government in the form of a report that is sent out to all ministries for comments prior to decision-making. The benefit of using outside expert committees is that they provide fresh perspectives – before being taken through the political process that must contend with the vested interests of various stakeholders. In addition to the committees, the government establishes thematic councils on a need basis, such as "Globalization Council" and "Commission of the Future" to provide as wide a point of view as possible as well as longer-term thinking. The Swedish government also actively consults the OECD, IMF and WEF evaluation reports as inputs in their own policymaking process.

Finally, Sweden has many world-class think tanks that challenge the government with new perspectives. Nonetheless, experimental policymaking has not been widely used in Sweden so far. The current government sees that this is an area where improvement is needed.

Intense communications: Inclusive discussion is a deeply rooted cultural phenomenon in Sweden – both in the private and public sectors. All matters are discussed with thoroughly before final decisions are taken. Ministries in Sweden are all involved in the drafting stages of the decision-making process because decisions are carried out by the government acting as a collective body. The process can be slow, but once a decision has been reached, all parties are committed to its implementation.

Resource fluidity

Flexible budgeting: Sweden's "single, unified government approach", as established in 1997, enables the prime minister (PM) and his/her cabinet to redeploy resources swiftly across ministries and agencies within the budgetary framework, as voted in parliament. This budget falls completely within the jurisdiction and control of the PM. That agencies report directly to the cabinet ensures transparency and adds to resource fluidity. Through budget appropriations and strategic goals, the government can quickly assign different cross-governmental tasks to one or several agencies.

The PM can also re-configure the structure of the ministries, which adds flexibility to better align the work of the ministries with the Strategic Manifesto (i.e. government program) of the country. In Sweden, the execution of government policies is clearly under the responsibility of the autonomous agencies whose work is directed exclusively in accordance with strategic goals and budget appropriations from the "single, unified government". The ministries function as "extensions" of the government and prepare policies under the tight supervision of politicians.

The Prime Minister's Office enjoys complete responsibility for co-ordinating government work in accordance with the manifesto, with the Prime Minister and his/her state secretary as the principal decision-makers. The PMO in Sweden is in charge of political co-ordination, EU co-ordination, and crisis management in Sweden. In addition, the PMO is responsible for the organizational development of the government offices, i.e. all ministries and agencies.

Reallocation of responsibilities: Consistent with the ideals of New Public Management (NPM) principles, the politicians in Sweden set the objectives and provide the resources for the ministries and agencies, which then decide on the appropriate means to reach the objectives. The "single, unified government approach" does, however allow the PM in Sweden to assign roles and responsibilities within his/her cabinet in such a way that it optimally supports the government agenda, the "manifesto". The responsibilities of ministers and ministries can also be reallocated

during the government's term on a need basis. Given their four-year framework allocations, agencies enjoy greater freedom to accomplish their tasks and can dispose of their budgets as they see fit.

Through tight financial controls embedded in the budgeting process and annual financial reporting, the Parliament can exert control over the strong mandate of the Swedish PM and government. Sweden adopted this very tight, top-down budgeting process at the beginning of 1990s as a remedy against chronic budget deficits. The wishes of the ministries and agencies contribute to the process, but ultimate approval of the financial framework is provided by parliament. Moreover, the government agenda, or manifesto, is tightly linked to a financial framework. Reporting on the progress regarding fulfillment of the goals of the government manifesto is carried out at the end of the electoral mandate.

Integrating support functions: The Office for Administrative Affairs, which is headed by the permanent state secretary in the Prime Minister's Office (PMO), is responsible for the provision of the human resources and organizational development, information and ICT, accommodation, real estate and facilities as well as procurement and audit services for all ministries, including the foreign missions. In addition to this, the ministries have their own small administrative teams that concentrate on planning and HR. Because they are dependent on their services, these teams work in close co-operation with the Office for Administrative Affairs. The recruitment of ministerial expert staff and of administrators in the ministries is the responsibility of the ministries. The general recruitment principles and processes as well as all the other administration process responsibilities are with the Office for Administrative Affairs. The IT systems of the government office (including all ministries and foreign missions) are also on the responsibility of the Office for Administrative Affairs. The agencies and local governments have their own separate systems.

Collective commitment

Mutual understanding and dialogue: As an engaged participant in world affairs and as a small and open economy, Swedish policymakers and businessmen are accustomed to dealing with diversity, conflicts of interests, and ambiguity. Their openness over the years has created an inclusive culture, in which everybody's voice can be heard in the decision-making process. As a result, Sweden has a long history and culture of cross-boundary dialogue. Horizontal co-ordination is carried out principally through "joint preparations" between ministries ("gemensam

beredning"), which precedes all government decisions. In addition, each political party from the coalition – today four parties – has an assigned state secretary in the PMO. The role of these state secretaries, under the leadership of the permanent secretary of the PMO, is to address and resolve all difficulties and conflicts before they are taken to the cabinet for decision-making. The government's Strategic Manifesto determines the criteria for conflict resolution.

Shared agendas and incentives: The government's manifesto forms the basis for all government work. In Sweden, this document includes the principal goals as well as 10 to 15 of the most important priorities for the government. The manifesto represents the "strategy" of the country, which includes high-level goals for each priority area.

The strategic Manifesto in Sweden is formulated in tight collaboration between parties in the same political "block". The current political blocks (two coalitions) in Sweden were formed in the late 1990s. Prior to that time, the blocks had a different configuration. The purpose of political blocks is to provide citizens with a clear view on the political priorities of each block before elections.

In practice, the formulation of the strategic agenda of each coalition block is completed before the elections by a small group consisting of one politician and one party employee from each party in the block. Smaller parties typically prepare their own manifestos first, which will then be merged with those of the larger parties with whom their goals as the most compatible.

Mobility of people: Job rotation across ministries in the government office is strongly encouraged, though is not a mandatory requirement for the top posts in Sweden, in contrast to for instance Estonia or Singapore. Swedish officials move from ministry to ministry on their own accord as a result of organizational changes within the government office in response to election results. In addition, roles and responsibilities between ministries can be changed during the government term. As a result, the host organization and work context of people and teams change naturally as a result of organizational changes.

Analysis

Sweden appears to have many of the key enablers of strategic agility in place, and most importantly, many of the enablers are well integrated (See Figure 2.2. Strategic agility profile of the Swedish government). First, the Swedish center of government uses multiple sources of information to provide an eclectic mix of inputs to government decision-making. For example, multidisciplinary expert committees

actively seek alternative ways to address emerging policy challenges. All key stakeholders then systematically review proposals from these committees as part of the political decision-making process.

Second, Sweden has a political system (i.e. coalition blocks) and process in place to create a shared Strategic Manifesto (i.e. the government program), which functions as a guide around which the government works throughout its term in office. Through tight collaboration with political parties that are most closely aligned, this shared strategic "plan" is prepared as a joint exercise well before

the elections. As a shared Strategic Manifesto outlining only on the top priorities, it leaves room for agile execution and flexible adaptation.

Third, Sweden has adopted a single, unified government approach. This modus operandi allows flexible resource allocation and instills a whole-of-government perspective to policy development and implementation. Furthermore, many of the supporting enablers of resource fluidity, such as job rotation and transparent IT systems, are easier to implement from within the government office than from autonomous ministries.

Figure 2.2. Strategic agility profile of the Swedish government
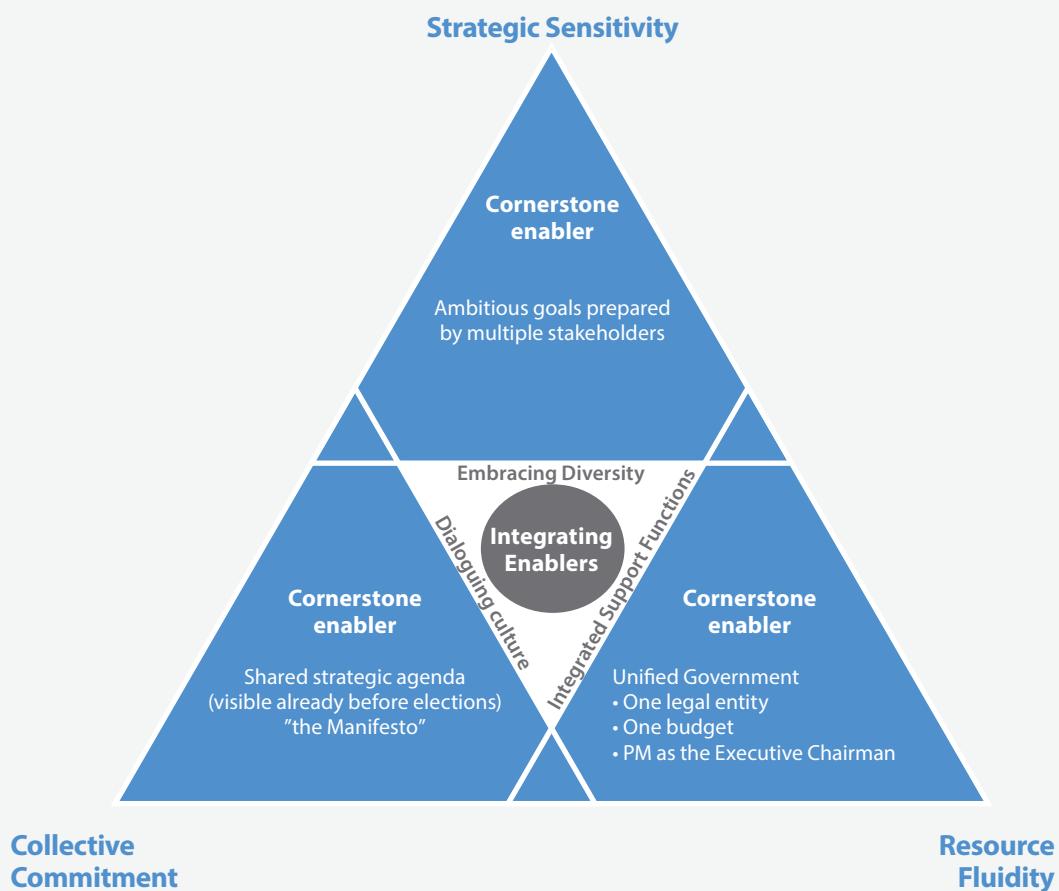
In the Swedish case, these capabilities have been systematically developed over the last 30 years. The Swedish government seems to have a culture of continuously adjusting its governance model – sometimes in a bold manner, depending on the need. For example, strategic manifestos were introduced in the late 1980s, when Sweden continuously overspent its budget, in large part due to autonomous decisions taken in ministries. The parliament and politicians then collectively decided to require subsequent governments to provide exacting financial goals and a clear prioritization of the actions they would pursue. The single, unified government approach adopted in 1997 represented a natural next step in the process of improving the execution capacity of the government. A culture that values dialogue supports both of the earlier mentioned enablers of strategic agility. Dialogue leads to consensus and commitment, which support unified action.

3. Developing strategic agility

Sweden enjoyed the advantage of "sufficient crises" (resulting from chronic budget deficits throughout the 1980s leading to financial crises by the beginning of 1990s), political leadership and a supportive culture in developing strategic agility as a state, and a country. Most countries may not, and organic incremental adaptation can lead to unforeseen destinations, not necessarily the building of strategic agility. In this chapter we turn to analyzing the deliberate development of strategic agility, and the purposeful changes to key governance processes that enable a deep transformation from passive bureaucracies to a strategic state. As an illustration, Scotland provides us with a natural experiment. Since 2003, following the devolution act in 1999 that transferred many state functions from Whitehall to a separate Scottish government, Scotland has been deliberately trying to build a strategically agile state. In this chapter, we first review the levers available to build strategic agility. We then turn to the process by which strategic agility is built. We start with the usual models of change and then move to a more political perspective of change in pluralistic contexts, both illustrated in their own perspective from the Scottish experience. Finally, we draw some normative implications for change leadership.

The levers of strategic agility development

Most change processes in organizations are based on a "from-to" assumption – changing from one state to another. Not so with developing strategic agility: the change is often from a very stable, even stultified, state to a new level of capabilities with built-in flexibility, dynamic rather than to another stable state. Put differently, developing strategic agility is a second-order change: not from-to, but mastering a permanently available capability to face challenges and complex problems as they arise. The spectrum of actions available to the government is renewed, or at least enhanced, to better address complex, interdependent issues. The government gains agility, resources are allocated with greater fluency, strategic foresight and insight frame and guide actions, and a "whole of government" commitment integrates policies between the usual bureaucratic silos.

The process of instilling strategic agility into an organization – in this case government – requires consistent action, working on four levers. One is cognitive: gaining a more ambitious, more strategic, more integrated and long-term perspective and a sharper grasp of current developments. Another is relational: shifting the patterns and modes of interaction among and between politicians and senior civil servants to make collaboration and joint action across ministries feasible, effective, and rewarding. A third is organizational: changing reporting relationships and the composition and activities of organizational sub-units. Fourth, the emotional lever is also strong – change speaks to the heart as well as the mind. Participants, feeling elation from the new possibilities for action that open up, will claim ownership, or feel anger and frustration in the case of failure. Of course, some may be challenged – or indeed, threatened – by the emergence of new perspectives, non-hierarchical relationships that call for new skills and discipline, and the disappearance of comfortable standard operating procedures and personal autonomy.

One can thus think of these as levers of leadership, i.e. along each dimension specific actions can be taken to increase strategic agility. Success requires all four dimensions to operate in concert. While the four levers are different in kind, they are complementary and mutually reinforcing.

New perspectives and ideas – cognitive change – are often a co-operative learning journey, together discovering and understanding different "realities" – in new conversations, in experiments, and in direct presence in the field, outside of the comfort zones of reports or collecting and interpreting data in the traditional manner.

Relational change is also a learning process, but focused on collective action rather than awareness and intellectual perspective. It is achieved through the acquisition of new skills and patterns of interactions and decision-making within the organization. Most importantly, it involves learning by doing over time, with appropriate assessment and feedback. To a lesser degree, it can be encouraged through training and discussion.

Organizational change is directly linked to power relations. It legitimizes new patterns of resource allocation, reporting relationships, measurement and evaluation, and rewards and punishments. The power dimension is why organizational change should come last in the change process.

Emotions are everywhere – reactions to situations, to discoveries, to the hard reality of power relationships and

dependencies. Some emotions can be orchestrated with events and the meanings built around them – commemorations, with metaphors, myths, and exemplary stories – and a few converts (or believers) in the value of strategic agility can play an immensely positive role. But caution is in order: emotions are contagious, and when the situation of change is not well understood, negative reactions may flare up and spread unexpectedly.

Used in concert, these levers are effective in triggering and guiding the journey toward strategic agility. Let us review them in more detail, starting with the cognitive levers before we address the change process proper.

Shifting cognition

An intellectual approach to such an ambitious transformation as building a strategically agile government simply would not suffice. Change starts with discomfort more easily than with lofty vision.

Use discomfort to trigger an ambition gap. There can be little real motivation for change without discomfort. Otherwise, confirmatory evidence that reinforces the status quo will prevail over information that would challenge it. How can discomfort with the existing situation emerge? Most obvious and extreme is a deep existential crisis – economic and social, political and institutional, or even external (such as a lost war). For example, with the fall of the Communist bloc and then the collapse of the Soviet Union, in 1989-91, Finland suffered such a deep, almost existential crisis as its privileged status as an East-West technology gateway ended in the midst of a major recession. Milder but unsustainable structural crises may also trigger action: we saw deepening budgetary shortfalls trigger crisis in Sweden.

Beyond such historical crises, political majorities and ministers come and go, but the civil service administration for the most part endures almost unchanged. Governments rarely face the crises that threaten the existence of some companies, where strategic renewal is a necessity. When Lou Gerstner was called on to rescue IBM, one of his first moves was to argue that IBM must return to its roots in system integration, but this time to address customer solutions rather than around the mainframe hardware architectures of the 1960s. He then sent all of his top fifty executives on a "bear hug" mission to leading customers' CEOs, to find what problems needed solutions – in some cases, they hadn't talked to them in years. Unfortunately, governments are often too reluctant to use "customers" (i.e. citizens, NGOs and non-profits, and corporations) to demonstrate the need for change to their own employees.

Another way to create discomfort is simply to cut available resources, not only in budgets but also in the ability of poorly functioning governments to externalize the costs of their dysfunction – by overtaxing, unloading its costs onto the private sector, or perpetuating poor service despite complaints. The operation "bear hug" proved to IBM employees that major customers were no longer willing to suffer the costs that emanated from IBM's weaknesses. Once the costs of inefficiency and ineffectiveness are acknowleged and need to be incurred internally, rather than externalized to the detriment of national competitiveness and well-being, many traditional "arrangements" become unsustainable, no matter how convenient they were to bureaucrats. This often triggers a collective understanding that, no matter what, real change is needed – the current "game" is no longer affordable, new arrangements to deliver better performance must be found. While the curtain does not fall abruptly on governments the way it does on bankrupt companies, independent government audit units may blow the whistle loudly enough to trigger change.

Short of an obvious crisis, the clear perception of failure reinforces the case for strategic agility. A focus on longer-term strategic outcomes, systemic solutions reached through interdepartmental collaboration, and a "whole of government" commitment provide the vision of a desirable destination point. We must contrast the limits of current practices with an ambitious and compelling vision they will not deliver, the success of which can be mapped out. This will illuminate the ambition gap between what we now do and what we might achieve, fostering a discovery that things could be much better. Here vision comes in to complement discomfort and mobilize attention toward the positive. But vision cannot come like the Ten Commandments from above, it is the result of an inclusive process.

Don't just tell, listen. As with any change process, a new perception and new ways of thinking need to be registered and reinforced in building strategic agility, once participants have "taken the journey" from awareness of underperformance to the acceptance of a compelling ambition. People do not usually commit to transformational projects simply by being told what is better – one must listen to their experience and then help them to articulate the need for change and the value of a lofty vision in their own words.

Deliberation of assumptions and challenges and diffusion of change proposals enable decision-makers to acknowledge, test, refine, and validate the new ideas and

perspectives collectively, as shared knowledge, and to develop an emotional collective commitment. For instance in a regular, ongoing fashion, the Swedish government's Policy Committee process functions as such a forum for both deliberation and diffusion.

However, premature diffusion via the media presents certain perils – if new ideas have not been internalized by key actors and the most influential stakeholders, we recommend avoiding the limelight. In contrast, once accepted and internalized, wide diffusion then becomes a public show of shared commitment, creating a sense of irreversibility, even a visible ratification of an achievement after the fact. Throughout the drive for strategic agility in Scotland, the press remained unaware of what had been undertaken and achieved until years after it was already done. "The best reforms," the head of the civil service in Scotland said, "are silent reforms".

Overcome practical barriers. There are three main barriers to the adoption of new management practices in organizations: understanding, interest, and identity (Carlile, 2004). Although often necessary, understanding alone rarely leads to change. We need self-interest – answering "what's in it for me?" – to convince participants to engage. But there is also the threat to one's identity, which is the greatest barrier to change: the fear that one's skills, achievements, social capital and network of relationships are going to be devalued and the basis of one's professional identity undermined.

Relational levers of change

Practice new skills. To overcome these practical barriers, leaders must employ relational levers. Identity fears can be overcome by learning and, more importantly, in the ongoing, almost casual, practice of new skills. Change experts, such as Richard Pascale, are fond of saying: "act yourself into thinking differently" – mastering new skills can help us accept new, more demanding cognitive perspectives, engaging us to confidently enter into less scripted and non-hierarchical relations. Put differently, the practice of something new may usefully precede the awareness that something is actually new. Oddly, awareness or understanding prior to practice might even be a hindrance: without the confidence that they can do it, stakeholders might balk at the implied behavioral change. Playing a game with low stakes or no stakes first can lead one to learn the game, and gain enough self confidence to play higher stakes later; we do not wish to prematurely take the game too seriously.[9]

As the game becomes more demanding and more risky, participants should retain the choice to opt in or out. Early feedback and positive reinforcement are important – they register progress, even if performance is only that of a beginner, not a master, and allow people to opt in confidently.

Engage in playful collaboration. The acknowledgement of systemic interdependencies, combined with greater lateral knowledge sharing and communication, and the initiation of collaboration result in a greater sense of personal power, influence, involvement, and collective commitment, particularly among middle-level civil servants who are often trapped in vertical silos. Although some autonomy is lost, inspiration is to be found in escaping narrowly siloed hierarchical relationships. It can be liberating. Recognizing and rewarding collaboration is an obvious prerequisite, for example through 360-degree feedback by one's peers rather than through celebrating and rewarding individual brilliance and prowess. In other words, to overcome the self-interest barrier, personal stakes need to be modified toward rewarding contributions to collective success. Nonetheless, not everyone will want to play, some must opt out and let go. Relational levers may involve reallocations of roles and responsibilities as well as new criteria and processes for measurements, evaluation, rewards, and punishments, in particular with reference to collective commitment.

To alter traditional practices, relational levers usually require a two-pronged approach: interactive in conversations, debriefs, feedback sessions and institutional with new management processes and measures that create a new context for action (Jarzabowski, 2005). Together, they constitute a new game.

Organizational levers of change

Bring organizational change last. A splashy "re-organization" effort is often poorly thought through and rarely results in enhanced strategic agility. Organizational changes should come last, as a means to ratify and stabilize cognitive, behavioral, and relational changes that have already taken place. The new organization should function as the visible artifact of an established, new way to work together – it is not the trigger to affect such change, but a consequence of it.

Prepare people. Typically, we have observed, strategic agility benefits from the adoption of some form of multidimensional organization, which no longer strictly

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9   It is easier to get someone to learn to walk on a tightrope a few centimeters from the ground, for the fun of it, than with the explicit objective of learning to walk a tightrope two hundred meters up between two skyscrapers.

aligns hierarchy and reporting relationships within vertical silos. They include cross-departmental strategic projects and operationally shared services such as IT, each having their own budgets and ministerial rank supervision, as we saw in Sweden. These multidimensional organizations also extend beyond government services to incorporate agencies, which offer greater flexibly to scale up and down or to reconfigure their responsibilities, such as in the Swedish approach to agencies described in the preceding chapter. They also extend to public–private partnerships, co-contracting, etc., where the role of the central government is more that of an orchestrator than that of an operator. This is deeply different from bureaucratic hierarchies. Civil servants steeped in a hierarchical tradition need significant adjustments, such as developing new integrative negotiation and collaboration skills to be effective in such organizations.

Emotional levers of change

The emotional dimension of change is present in the other three. For example, cognitive reframing is easier at moderate levels of stress in individuals that hold positive attitude to future ambition, rather than a negative memory of past difficulties in similar circumstances or anxiety about an unpredictable future. A change leader needs to be sensitive to the emotional dimension of strategic agility and rigidity being present everywhere. In addition, symbolic actions can be aimed directly at the emotional dimension. At the most mundane level, new mottos, logos, color schemes, and a rebranding of services and agencies may contribute. At a deeper emotional level, myths, legends, and stories of public service accomplishments can influence feelings decisively. In Scotland, the change process was started by showing video clips to staff of citizens individually thanking the civil service for having helped them in making progress with their aspirations or overcoming adverse circumstances.

Emotions are contagious, so seeding the ranks of the civil service with converts to strategic agility, who radiate and convey genuinely positive emotions, is a major way to propagate change. It is more effective than the proverbial "cascades", which are often contrived and artificial attempts at buy-in. Furthermore, cascades are vulnerable to anyone in the process showing lack of commitment or letting concealed reluctance become visible.

The process of change – Case Scotland

The four levers for developing strategic agility provide an array of complementary approaches and tools. How can they be deployed and used in a concerted fashion?

Change in public administration contexts has often been inspired by an "unfreeze-change-refreeze" model of change, as adopted from corporate examples. This model was first articulated by Kurt Lewin (1947) and developed and refined later by many change management "gurus" (e.g. Kotter, 1996). In short, their model includes developing a "case for change" with a sense of importance and urgency (sometimes dubbed a "burning platform", a term made infamous in Finland after the call for renewal by Nokia's CEO in 2011). The assumption here is that a new perspective should come first, perhaps supported by an emotional appeal, motivating one to leave the present behind in order to leap into the future. In addition, this model assumes a supporting coalition, brought together internally from within the organization as well as externally from key stakeholders and opinion makers (e.g. the media). Moreover, this approach assumes that a "blueprint for change" is known and accepted, i.e. that we have a detailed diagnostic of the system, and we know exactly what to change and how. In other words, a linear theory of causes, actions and consequences is adopted, assumed to hold true enough, and used to guide the change process.

Another "given" of this approach assumes the existence of a dynamic powerful "champion of change", such as a new CEO in the corporate context. Change is autocratic, as this leader wields extensive power – s/he knows how to redesign and restructure the organization; how jobs should be re-defined, who needs to be hired, promoted, and fired; how to "align" forces with the company to support and implement change.

Change is then "engineered" through a few key moves: organization, people (and the metrics applied to their performance), administrative processes and directives, and after some adjustment period, things and people just fall into place in a new configuration. Not everyone adjusts, though, so the "die hards" leave. If the initial case for change and the change coalition are robust and compelling enough yet not too inconsistent with the deep organizational culture, then change succeeds. People, in their new roles, learn by doing and after a couple of years, change becomes institutionalized, a new way of working together.

Frequently, this approach has been adopted by civil servants engaged in change processes, and it has shown some success. Scotland provides a case in point.

Scotland (A)

In 1999, the Devolution Act transferred many state functions and responsibilities from British administration (a secretary of state for Scotland within the UK Cabinet, supported by a ministry, the Scottish Office) to a separate Scottish Parliament and government. Scotland, a parliamentary democracy, became principally responsible for domestic policy areas, such as health, education, law and order. The British government retained control of most national sovereignty functions, such as fiscal and monetary policies, defense, and foreign affairs. There have been incremental steps in devolution since 1999, including major legislation in 2010 extending fiscal powers and UK parties propose further increases in devolution in the future.

Two major differences from the rest of UK underlie this move towards independence. First, following the "Thatcher years", Scottish political leanings increasingly diverged from those of England, to the point that some of its citizens no longer saw themselves as "represented" effectively in Westminster. This fuelled the rise of the Scottish Nationalist Party (SNP), which calls for full independence. Second, there has been a long running argument of Scotland's separate economic strength following the development of the oil and gas industry in the North Sea since the 1960's and the more contempory hypothesis about the greater potential for agility of small nations.

In 2003, the Scottish government, via a newly created strategy unit reporting to the permanent secretary of the government (a position that the prime minister created), used existing data to show that current policies delivered poor or stagnating results, at least when applied to complex problems. The Scottish government also adopted scenario-planning approaches to show these policies would not take the nation into a bright future. This created dissatisfaction with the status quo, hence a strong desire for change. Internal support was built using emotional and symbolic tools – e.g. projecting video clips of citizens thanking the government for making a difference in their lives – and more direct means, like a shift in measurement and rewards from individual, from intellectual brilliance to collective-action capabilities, such as process facilitation and project

management skills. Lower level support was secured by a mix of reassurance and of the empowerment of collaborative and networked collective action opportunities. Civil servants claimed ownership of the process.

Following a breakdown of the Labour/Liberal Democrats alliance that had led Scotland before the 2007 elections, the SNP ran a single-party minority government (an unusual and unexpected configuration) from 2007 to 2011, when it won an outright majority.

After the 2007 election, Scotland adopted a National Strategy Framework (inspired from a similar approach followed a few years earlier by the Commonwealth of Virginia, in the US), in which all government actions would need to contribute to seventeen national outcome indicators, themselves driving the implementation of five "National Objectives".[10] This provided intent and an anchor point to improving strategic sensitivity.

In the devolved Scottish government, resource fluidity was achieved through budgeting flexibility, introduced informally at first among ministries and department heads, later more visibly. This allowed the government to be more strategic in its use of resources, to address problems as they arose or were recognized, in the true spirit of cabinet responsibility and collective commitment. Common IT tools and financial processes which predated devolution also made the practical sharing or reallocation of resources easier. In 2007, changes were formalized through new reporting relationships in which the exclusive, vertical alignment between ministers, director generals (formerly heads of departments, before the abolition the departmental structure of government) and administrative departments was severed. Resource allocation fluidity was an increasing feature of the operations of government but was only formalized several years later, with parliament agreeing that a single "whole of government" budget should be the basis of formal accountability rather than the budgets for individual departmental portfolios.

A "concordat" delegating to local authorities flexibility over a larger proportion of the substantial (80%+) central government contribution to their budgets, in return for local authorities' agreement to align their strategic priorities with the National Strategic Framework.

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10   For a wealthier and fairer, smarter, healthier, safer and stronger, and greener Scotland.

But are things really this clear and simple? Studies of change in public administration reveal a more complex picture and context, which challenge several of the key assumptions behind the "unfreeze-change-refreeze" model. Perhaps most critically, change in democratic countries is pluralistic rather than autocratic. Researchers of change in public administration (e.g. March and Olsen, 1976; Denis, Lamothe, and Langley, 2001; Dupuy and Thoenig, 1985) all noted that power is diffused between specific interest groups (doctors versus administrators in hospitals, professors versus administrators in university, territorial extension of central administration versus locally elected politicians or administrators such as city mayors in transportation, etc.), and change can result only from a fragile and temporary alignment between these various groups. Change also occurs on many levels, each with its time line. Political change – usually through elections or cabinet reshuffles – follows its own institutional rhythm. Elections and changes in governing coalitions create windows of opportunity for certain actions and initiatives. At any point in time, agreement on action may be aligned but not objectives, making any agreement fragile and short-lived.

Moreover, the permanent administration typically maintains long-term continuity and consistency against political vagaries. It manages multiple time frames: satisfy ministers in the immediate, yet keep the long-term stability of the country at heart. Often, senior civil servants turn into conservative "guardians of the temple", i.e. better no change at all than something ill conceived and politically motivated. Moreover, civil servants may even harbor greater ambitions for the country, abiding higher ethical standards than election-motivated politicians. On its face, this sounds like muddling through. Let's take a closer look at Scotland before taking the argument forward.

Scotland (B)

Following the 2003 elections, renewing the Labour–Liberal Democrat coalition in Scotland, Jack McConnell, the First Minister, was concerned with the risk that individual departments would align exclusively with their ministers, regardless of which parties were in power, thereby compromising the government's unity and his own ability to govern. Strengthening a cross-departmental perspective in the central government would mitigate this risk. He was also concerned with the hundreds of detailed propositions to be implemented in a balanced fashion by the coalition government; this created a risk that the trees would hide the forest: the diverging impulses of individual policies would take precedence over their combined impact on strategic priorities. He wished to encourage strategic analysis which might form the foundation of a different approach in the future.

Before the 2003 elections McConnell appointed Sir John Elvidge as permanent secretary of the government to take effect a few weeks after the elections. An Englishman, Elvidge, whose career in the civil service had taken place mostly in Scotland, had returned in 1999, following a period in Whitehall working for Tony Blair, the British Prime Minister, on complex, cross-departmental issues. This experience, as well as his prior work in Scotland, had convinced him that the country was facing a series of complex, interrelated problems (health and longevity; education and employment, juvenile delinquency, etc.) that could not be successfully addressed by discrete, specialized policies administered separately through distinct departments. Such systemic challenges, he believed, called for collaborative approaches, across departments, for strategic purpose. Elvidge also worried about the New Public Management (NPM) model for two reasons. First, its focus on refining existing policy rather than on fresh strategic insights seemed to him to fit badly with the evidence across major areas of government activity. Second, its focus on public services in functional silos was difficult to reconcile with the widespread understanding of the complexity of causal factors in the key problems government was seeking to address. As implemented in Scotland at that time, it sought to respond to complexity by increasing emphasis on enabling citizens to "pick and choose" the set of government services in accordance with their needs; better educated and wealthier citizens, he observed, were taking most effective advantage of the choice, while the evidence showed that the poor most in need of government services were less successful in doing so. As a result, not only did existing policies not address complex problems the poor suffered most from, but the evidence suggested that the poor could not compose their own policy menu as a function of the complexity they faced, in effect compounding the problems of the needy.

Convinced that others needed to come to share his analysis before any effective actions could be undertaken, Elvidge saw an opening in McConnell's desire for a more strategic approach. Elvidge quickly built a strategy staff, organized in a long-term strategy unit and a policy deployment unit for short-term implementation. From prior experience, Elvidge was also convinced that "telling" people about a negative picture would not work, i.e. Cassandras were unappreciated. Perhaps faster and with some pathfinding guidance, he reasoned, people needed to take the same journey through the evidence that he had taken; that way, they would discover the issues and reach similar conclusions to his, but on their own. Elvidge was also keen to be able to encourage change actors with "as you suggest…" rather than "as I told you…". In some cases this led him to accept the need to adopt policies he judged would be insufficiently effective, so that others, experiencing their lack of impact on outcomes, could reach the same conclusions he had, empirically, not intellectually. Of course this took time and consumed resources, but they were not wasted: only when enough civil servants were convinced for themselves could effective change take place.

Starting in 2003, as Elvidge's strategy unit engaged into a process of long-term scanning and scenario building, they concluded that current policies would not achieve success or contribute to a better future for Scotland: in the face of complexity, their efficacy was plateauing, perhaps even declining. Based on the current policies, they saw, throwing more money at these ways of seeking to address complex problems would not help. During the process, Elvidge's staff reached out to leaders in civil society, business, academia and others dialoguing on the need for change, again in a discovery mode including them in the process of scenario development and implication drawing.

Elvidge knew the Scottish administration well. Between his return to Scotland in 1999 and his appointment as permanent secretary four years later, he had held various key responsibilities in the Scottish government; in the final year of that period they included human resources and budget, which enabled him to prepare the ground for change with key allies. For example, he promoted action-oriented managers with practical skills, such as team building and project delivery management, into senior positions; he also brought in managers with concern for collective success rather than those overfocused on individual recognition. He also altered the purpose and content of an existing executive development program, stressing accountability for outcomes and methods for collective decisions and conflict resolution, based on the concept of adaptive leadership (Heifetz, 1998) and public value (Moore, 1995). This prepared participants for collaborative and more effective decision-making.

The collective recognition of coming failure to meet future needs and expectations, by both staff and outside stakeholders, represented a watershed moment of awareness for everyone. It also reinforced Elvidge's conviction that greater collaboration, stronger strategic direction, and greater fluidity in the use of resources were key. Although he had known, before 2003, what should be changed, it was essential that change be owned by the change actors as a result of their own journey of discovery.

Yet, after a few years, progress remained limited. Cognitive change and the beginnings of relational changes did not suffice.

A new opening came by accident in 2007. Designed to require a system of coalitions between parties, the Scottish electoral system had been created in part to exclude separatists (e.g. the SNP) from power through the expectation that they would be unable to form a coalition. However, interpersonal rivalries within the Liberal Democrat party, which had been the junior partner in a coalition with Labour, led to the likelihood that the existing coalition would break down following the 2007 parliamentary election.

Sensing an opportunity, Elvidge immediately undertook a number of initiatives. First, they sought to use the process of pre-election discussion between the civil service and the opposition parties, which is normal within the UK and the devolved arrangements, to reassure the SMP leadership that the existing civil service leaders could be trusted to work constructively with them in the event that they came to power. Second, he and his team undertook work to identify ways in which they could build upon the SNP's Manifesto proposal. The SNP had spent considerable time and attention on how they would govern Scotland should the opportunity ever arise. In its research to find a suitable governance model, the SNP had zeroed-in on the Commonwealth of Virginia, a US state that had gone through crisis and renewal in the 1990s. They had also proposed a set of national objectives, with sub-goals and key performance indicators to be developed later that would potentially offer a strategic framework that was compatible with Elvidge's ideas.

Following the 2007 election, with the failure of Labour and the Liberal Democrats to agree on a coalition government, the SNP was unable to form a coalition but had the option to form a single-party minority government. Elvidge and his team did work to identify a potential operating model for such a government and performed an analysis of the extent to which the SNP manifesto could be delivered, offering that to the SNP leadership. He then invited the SNP leadership to consider a radical redesign of the internal structure of the government, involving the termination of the long established model of a series of functional departments (ministries).

In a thirty minute meeting, the SNP leadership provided its full support and endorsed Elvidge's proposal. This was a major organizational breakthrough, enabling a more collaborative and 'whole of Government' policy making to emerge. In the new administration, former heads of departments were redeployed into a smaller number of Director General roles, focused primarily on shared responsibility for the whole of government performance. Forty five (thirty eight now but more then) Directorates (the next level of staff grouping) would implement policies and constitute the highest level of functional unit of organization. The five Director Generals would each oversee one of the government's broad strategic objectives, such as a Safer Scotland or a Smarter Scotland, integrating the contributions of all parts of the civil service rather than only directing (and acting as advocates for) a particular department, as they used to do. Thus the Directors General became the leadership team of a single, unified Government approach. This represented a major transformation of their professional identities.

The SNP's intention to govern a cabinet team, rather than giving primacy to the separate ministerial portfolios which were retained for parliamentary accountability and as a practical basis for division of labor, also placed a stronger emphasis on the management of financial resources on a 'whole of government' basis. Under the oversight of the Finance Minister (Cabinet Secretary for the Finance and Sustainable Ecnomic Growth), the civil service was able to make greater use of the expertise which had developed in varying resource allocations between portfolio budgets in the course of the year. This provided short-term resource fluidity which matched the policy agility which the new government sought to demonstrate.

Mid-level civil service leaders who headed the 45 directorates from whom opposition could have scuttled the development of strategic agility, very quickly became major supporters and drivers of the change. Their energy, stifled for decades under "siloed" hierarchies – was unleashed by their opportunity to lead collaboration on key policies and projects across departments. They jumped at the opportunity.

In the approach to the 2007 election, Elvidge had prepared for the opportunity of change by managing a reduction in the number of senior civil service leaders at the head of department/director general level: one to Whitehall, one into retirement, one to a substantial government agency at a nominally reduced level of seniority. Although the numbers were reduced, over subsequent years new people with greater collaborative skills were progressively brought in, enhancing resource fluidity and collective commitment.

Let's move from the specifics of the Scotland example to analyze effective and ineffective sequences of use of the various levers of change in developing strategic agility in light of the example above.

Using levers of change effectively

Reality may well lie in between the two models we outlined above: rational and autocratic (Scotland "A") versus political, pluralistic, and adhocratic (Scotland "B"). Put differently, model "B" represents a descriptive backdrop to change processes in pluralistic organizations, small or big; Model "A" represents a normative set of principles and leadership tasks that can still partly apply within model "B" conditions to lead change in a pluralistic context. Of course, care and discernment must be applied in taking the actions recommended by model "A". The issue is not an "either-or": both are applicable.

First, successful processes leading to higher strategic agility start with an emotional rekindling of the purpose of the organization, a rallying cry, e.g. IBM in 1993 or Scotland in the early 2000s. Disgruntled and dispirited (IBM) or complacent and bureaucratic (Scotland) employees do not make for good change agents.

Second, a patient build-up of analytical evidence may trigger a cognitive reframing, a change of perspective. As we stressed, the evidence may need to be more than intellectual – cognition must also be emotional to break through the defensive barriers that would otherwise filter dissonant evidence out, or reject a challenging reframing of existing evidence.

Third, relational changes – initially as a risk-free "play", "try out" model – follow (or like in Scotland evolve in parallel) to cognitive change, often starting almost surreptitiously. Relational changes require disciplined practice over time. A skillful government leader can lead relational changes by example and with low visibility to outsiders, inspiring others to adopt them, even in the absence of political support.

Although ultimately powerful and effective, relational changes often appear innocuous. Most of what governments do is rather stable and immune to technology or system disruption, so governments can pace their renewal; this sets them at an advantage in comparison to for-profit companies. Nonetheless, because governments are increasingly involved in economic development, they are subject to greater and greater time pressure, but it is seldom a matter of life and death as it sometimes is for private-sector companies.

Regarding the sequence of change, cognitive and relational changes serve to justify the organizational ones

that follow. Despite the vital importance of cognitive and relational changes, the development of strategic agility remains fragile and incomplete without organizational changes that ratify a new way of doing things, circumventing its opponents in the process. Organizational change bites because it changes explicit power and dependence patterns, as well as the rules and rewards within the organization. Organizational change also carries a promise of "no going back" – it requires political commitment and, in some countries, new laws or even constitutional amendment of the governance principles and structures of the country.

If organizational change appears to have been accomplished by bureaucratic fiat, even where legally and constitutionally feasible, it carries huge costs in terms of commitment and good will. Hence, in government even more than in corporations, they should come last, as the official commitment to the future stability of a change already well underway.

Figure 3.1, below, illustrates this analysis based on the example of Scotland.[11]

Figure 3.1. A schematic of strategic agility development in Scotland
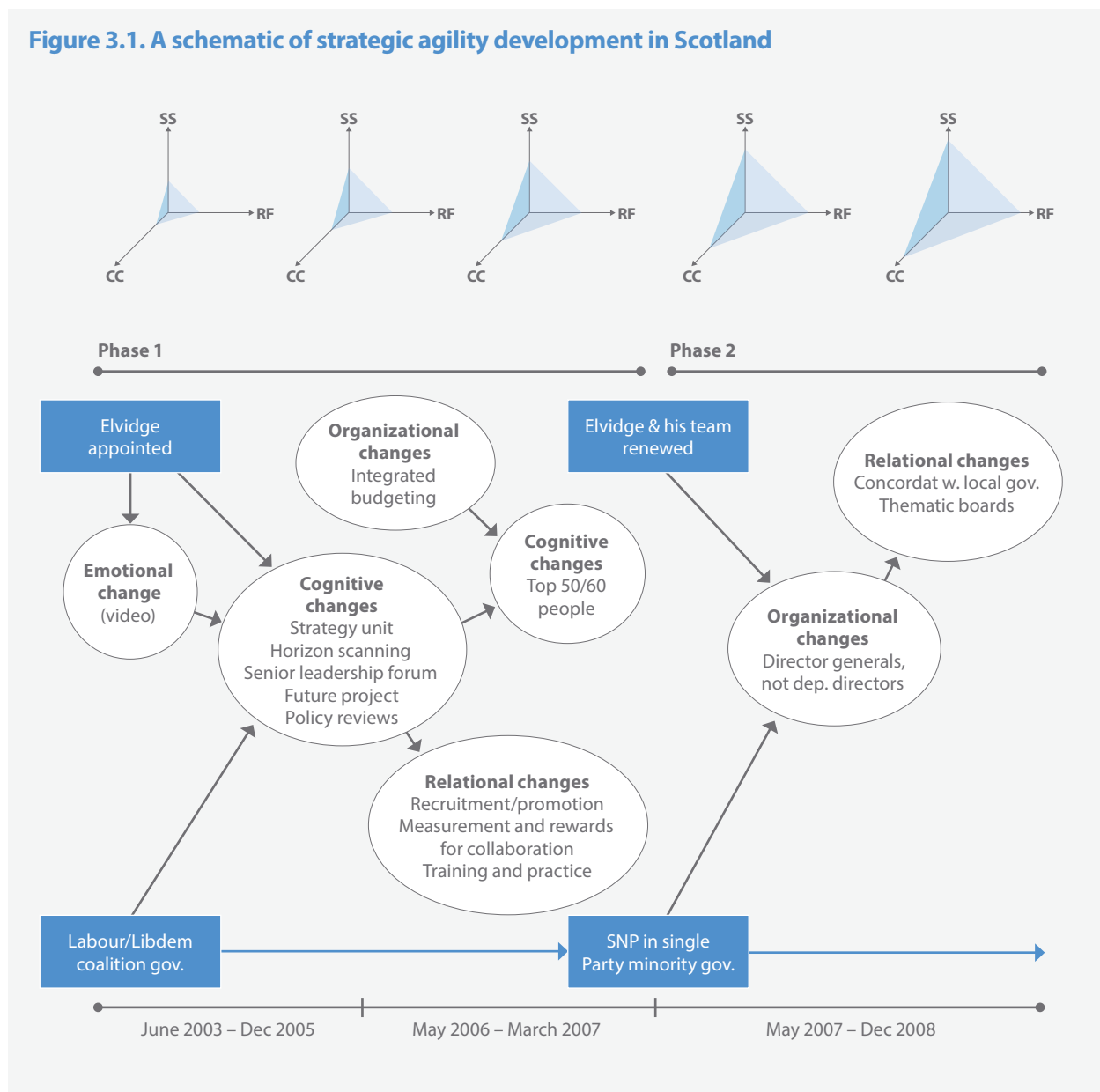
11   A more detailed description, from which Fig 3-1 is derived is available in *Strategic Agility in Nations (A): The Scottish Example*, 2013, INSEAD; *Strategic Agility in Nations (B): The Scottish Example*, 2013, INSEAD cases; and a deeper analysis and interpretation can be found in Yves Doz & John Elvidge, *Integrative Strategic Change in Distributed Power Structures*, (forthcoming, 2014).

Recommendations for developing strategic agility in central government

Dissatisfaction with the status quo, as a function of policy results, needs to be aroused. This is emotional, not just cognitive. Some form of "foresight" exercise is the tool of choice. Foresight generates a range of choices, a textured picture of what the future might hold, i.e. neither a single "point" forecast nor a simple unique image for the future, but a rich context to anticipate a wider ranges of possibilities, to prepare for them, and to cull early signals from ambient noise. Foresight gives food for thought, a way to recognize storms to come, a way to consider the possibility of the unthinkable, to envision "black swans".

Because governments can rarely generate sharp and simple performance indicators (like Economic Value Analysis, or even free cash flows for companies) and because their leaders are often ambivalent regarding non-partisan analysis, it is difficult to confront negative evidence honestly. Particularly with weak governments, feeble leaders, and mounting problems, everything is driven by a desire for political exoneration. As such, they will be reluctant to address complex problems, such as long-term unemployment, health inequality, declining education results, or increasing violence; not only do they have multiple causes, but remedies for them rarely fall exclusively in the realm (or under full control) of public policy and government actions.

Given these constraints, poor performance is likely to be deemed "acceptable" when facing complex problems. Focusing on activity-based measurements and short-term results hides the systemic failures, i.e. politicians and civil servants would rather ask "how many health checks did we perform today?" instead of "but did the health of the general population really improve last year?" Taking a systemic perspective rather than a narrow activity-based one becomes a critical lever to expose underperformance. Detecting and eliminating hidden sources of slack is also a requirement. Such measures are, as we have noted, hard to put into practice, in part for lack of good yardsticks.

Nonetheless, dissatisfaction with the status quo is only a starting point and cannot serve as an instrument for action. In corporate contexts, it is an "exit" signal – the best people recognize when to leave. In government, instead of leaving, employees tend to opt out emotionally, providing "minimal service", perhaps even contributing little for the remainder of their careers.

A compelling vision of a better future and a strategic roadmap to get there are the next steps. In government and public policy contexts, this is particularly challenging due to lack of competition. In contrast, corporate strategic visions spark ambition in their best employees to beat out competitors. But for government, this sometimes requires the creation of an enemy, which is negative rather than genuinely forward looking. Conserving resources (e.g. environmental or energy-related) might help, but it is hard to earn credibilty through them, except in unusual circumstances. This creates an expectation gap: we could do a whole lot better if only we tried better (rather than just harder).

For many "old" European small countries, the global, open economy may provide the needed spur: governments need to be more strategic, acting as a catalyst, enabler, or orchestrator of national competitiveness. Singapore, Taiwan, and Israel are popular role models: with no endowment in resources, they succeed in the global marketplace with active government support. But can their experience be applied elsewhere? All three are nations of refugees and immigrants, outcasts from bigger neighboring geopolitical entities, with an extreme sense of national identity and fragility.

Give people the confidence to change. To undertake change, participants need to believe they are up to the task and able to perform well in a new context. However, human beings seldom like venturing into the unknown – we are creatures of habit. So paving the way can help. For example, not only did Elvidge create opportunities for collaboration early, on low-stake and non-threatening issues, but he also provided coaching skills in adaptive leadership, in the process reducing perceived risks and improving the odds of success. Not only was collaboration successful in itself, it also brought better decisions and outcomes than individual participants might have achieved by themselves, individually or through "common ground" compromise.

Introduce new rules and rewards. All organizations reflect a compromise or "truce" (March and Olsen, 1976) between actors, including both employees of the organization and stakeholders involved with it, such as political parties, unions, financial institutions and their watchdogs, etc. By continuing to work together or support the existing organization, all actors signal they prefer its continuation to a massive shake-up, such as a revolution. Any real change will disrupt the benefits and incentives to which actors have been accustomed.

The importance of intrinsic rewards and emotional commitments cannot be underplayed. Calls for change first speak to emotions, not intellect. Pecuniary or other formal incentives may be problematic in the civil service,

but perks (a chauffeured car) or symbols (the location of an office) may effectively serve as rewards. In many countries, in particular where the central government is largely a bottom-up emanation from autonomous local administrations, the pride of serving "fellow citizens" is still deeply embedded in civil servants' ethics. This is not just a job "you end up in", but a calling that is a source of pride[12]. It was emblematic that Elvidge opened his tenure by showing videos of citizens thanking civil servants for actions that improved their lives, reminding everyone of this ethic. An intrinsic motivation, one can take pride by participating in effective interdepartmental actions and lateral collaboration, rather than being tasked to jealously defend your boss's turf.

Balance openness and stealth. The development of strategic agility is far more demanding on managers than maintaining the status quo. It requires more collaboration and alertness to context and the ability to form new patterns of work relationships according to opportunities and needs. In effect, it sweeps away the traditional bureaucratic script. In addition, strategic agility is vulnerable to public agreement – promoting superficial lip service – that is undermined by private dissent.

It is likely to trigger all three barriers Carlile spelled out: cognitive disagreement in conflict between the aims of politicians and the mandate of civil servants to maintain continuity; personal interest; and professional identity. So being up front and open about the change process may backfire. As demonstrated by the Scottish example, a modest dose of Machiavellian stealth may well be required in order to succeed.

Adjust to the unpredictable. Developing strategic agility is not like clockwork: one operates in a complex, dynamic, open system. Even for the best-informed leader, the results of every action are not entirely predictable. Understanding the systemic complexity of action contexts is essential but may not be sufficient: not all stakeholders are visible, or understood, and some may invite themselves into the change process only after it comes to their attention. Although strategic agility development is a second-order change (change is in "how" we do things, not first order change in "what" we do, which is more visible and might attract more immediate controversy), it may be contentious, and trigger unexpected reactions, with surprising consequences.

Be adaptive. The best-planned change sequences seldom unfold as envisioned – pre-set formulas don't work.

Change is adaptive and slow to take hold; leaders must be adjustable and wait for initial feedback before proceeding. Pre-announcing change or rushing through too many initiatives and steps at once can deprive a leader of intermediate feedback. While leaders can follow a broad outline – start with cognitive perspectives, following with emotional engagement – they cannot necessarily plan every single step; some are "discovered", like Elvidge realizing that he could "repurpose" an existing, already legitimate, training program. Some planned steps may be abandoned – either because they are no longer necessary, or because they have come to be seen as too brutal. The key here is to keep a clear sense of direction and purpose, adapting as the change process renders necessary. Developing strategic agility calls for strategic agility in how it is done!

Pacing matters. Beyond the disruptions associated with feedback, learning and adjustment, or plan-do-check and act (PDCA) at each step, political rhythms such as elections can influence the change process, as we saw clearly in Scotland (figure 3.1). As we have stressed, change spreads best through a viral process of commitment not a programmatic "cascade" with toolkits, trained facilitators, and the like. But this takes time – a critical mass of converts-turned-change agents grows slowly, like a social movement. Leaders must also pay attention to pacing, given that the process is necessarily interactive: listening, eliciting commitments, sustaining dialogues, etc. Senior civil service leaders also need to be given credible, i.e. well-informed, feedback on "soft" measures, such as how well they contribute to collaborative efforts, in inputs, behaviors, and results. This also takes time, and takes hold slowly, which is one of the reasons why reorganization is not a good way to engage in the development of strategic agility.

Economize personal capital. Stealth and Machiavellian manipulation can be used, but with measure; as with any exercise of political power, how it is used and over what time horizon matters. Even when feasible, changes that abruptly affect the distribution of power can erode goodwill, trust, and legitimacy – unless full justification and preparation of the persons involved have been achieved. Fair process is of the essence.

Walk the "corridors of indifference". In government contexts, major changes succeed not so much because everyone wants them – only a few determined men and women may be enough to start – but because no one opposed them too vehemently. In other words, if possible, change measures should stay below the pain threshold,

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or even off the "radar-screen" of stakeholders. Like the proverbial "boiled frog" who fails to jump out of slowly heated water but instead dies, stakeholders who would oppose it may not notice anything. Stakeholders who might voice the strongest and loudest objections must be disarmed early, e.g. by moving them to other unaffected positions; co-opted through persuasion and changes in the pay-offs from the "game" they play; or left in the dark until it is too late to oppose.

Navigate institutional barriers. In some institutional contexts, the levers of change we propose may be unavailable or unused. For instance, if individual ministries' budgets have to be decided separately in a binding fashion as a law, as is the case in Finland, informal resource allocation fluidity is infeasible. Or if civil servant status carries a lifetime employment guarantee, and mobility between ministries is difficult, the reallocation of talent to critical areas becomes difficult proposition. Dead wood can only be disposed of by waiting for retirements, and talent up to the task cannot be brought in. This may delay the effective adoption of new information technology and e-government significantly.

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Governments for the Future: Building the Strategic and Agile State • Government renewal: Contingencies, barriers and enabling conditions

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4. Government renewal: Contingencies, barriers and enabling conditions

Government renewal and the development of strategic agility are obviously difficult to implement and even harder to sustain, as we have seen in the example of Scotland.

However, different countries face their own types of problems and needs as well as their own institutions and historical traditions – so not all of them equally require the set of capabilities that the Scottish government has been developing. Nevertheless, globalization, if not more basic issues such as the inability to solve lingering and costly complex problems, calls for nations to develop such strategic and agile capabilities: with open economies, they become vulnerable to the pressures associated with globalization, they must find a way to both promote their interests and find remedies to complex problems stemming from global interdependence.

Contingencies and required capabilities

Among nations faced with globalization, smaller nations need strategic agility the most. With greater specialization of their national economy, they face industry- and company-specific technological and competitive disruptions as a matter of vital importance to their national well-being, forcing change upon them for reasons out of their control. Larger countries, with a broader and more diverse economic base, face somewhat less risk. In these larger countries certain regions or cities may be more adept at tackling complex problems and developing strategic agility than the whole country: they are taking on many governance roles and responsibilities and enjoy varying geographical conditions; in France, the "Rhône-Alpes" region is part of the "prosperity crescent" that runs from Sweden to Northern Italy and has different challenges than Brittany jutting into the Atlantic at the edge of continental Europe.

Capabilities for the strategic integration of actions and policies also vary between countries and their governments. Some, such as Sweden, have developed a significant capability for integrated action, others have not, and this makes them less able to address complex challenges in a unified way.

Figure 4.1 sketches these differential capabilities on the horizontal axis, and complements the problem complexity classification scheme, captured here by the vertical axis.

In schematic form, New Public Management (focus and delegate) suits the lower left quadrant: problems are not very complex, hence they can be easily "decomposed" (sub-systems can be isolated, the whole can be broken down into specific areas) and solutions can be focused and efficient, implemented by delegation, calling for little integration between groups normally separated by bureaucratic silos. Of course, some countries enjoy greater capabilities to achieve strategic integration, perhaps from a process of developmental catch-up, in which national planning worked well; for example, in the early decades of Singapore's independence or in post-war reconstruction in Europe. Here, a typical strategy and structure model can be effective, with a centralized state, particularly if built on strong anticipatory capabilities and agile, flexible implementation as in Singapore.

Things become more difficult, though, as one considers the upper part of the diagram, i.e. with problems characterized by high complexity. As complexity increases, uncertainties over cause-and-effect relationships and the true scope of systemic interdependencies often overwhelm strategy. A pluralistic and fragmented government will only be able to take specific actions to muddle through, but cannot address complex problems in a comprehensive way – action capabilities are too crude for the system within which it operates. To overcome this problem requires independent, distributed, and controlled local experiments, and then the communication of what is learned and what the implications are for best practices. In other words, a simple "variation, selection, retention" process is the only route available, and it may well still work effectively. Here matching complexity with even more complexity – a self-defeating approach – should be avoided in favor of distributed emergent resilience. This does not result in a complex and fragile society and avoids risks of systemic collapse (Tainter, 1988; Snowden and Boone, 2007). Failed states provide examples of mis-addressing complexity, lacking either strategic integration or an evolutionary process to make effective selections, usually because of corruption or ideological bias.

As one moves along the first diagonal, the state shifts from an exclusive preoccupation with efficiency to

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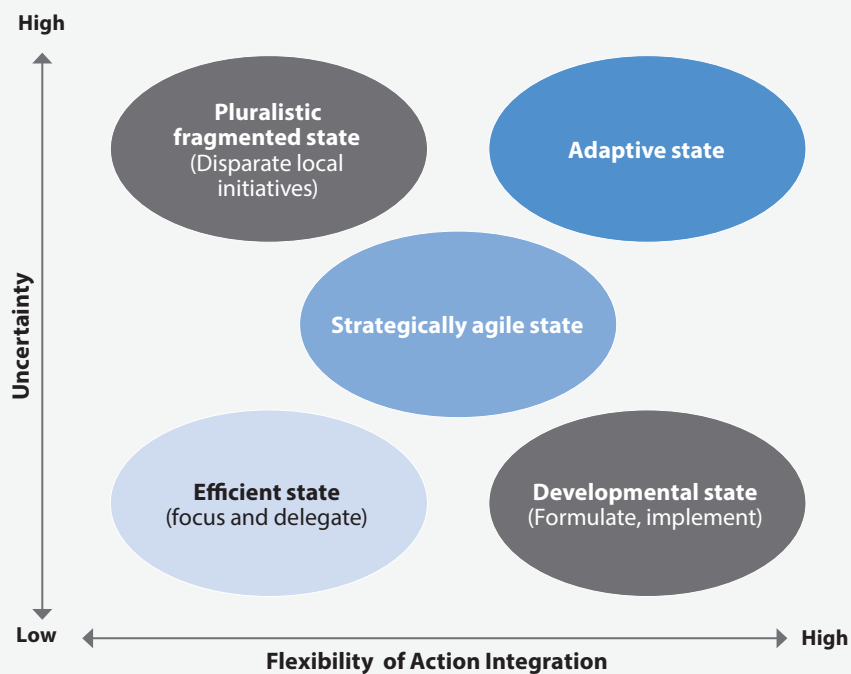
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strategic integration. Actions are increasingly co-ordinated within a strategic integration framework so long as external complexity can be contained and understood. Once they cannot, further up on the diagonal, the civil service has to adopt features of an adaptive system as complexity rises further. This attempts to respond to greater demands for flexible, emergent, ad-hoc integration, rather than pre-planned integration.

Below the diagonal, the organizational capabilities of states, in terms of implementing co-ordinated policies in the context of an integrated strategic framework, exceed requirements. Along the diagonal, they roughly match environmental requirements. Above the diagonal they fall short and governments have to shift to a decentralized evolutionary adaptation framework at the local level.

The strategic agility capabilities outlined in this report essentially correspond to a move along the diagonal, up to a point of rising complexity where the ambition of strategic integration becomes unrealistic and likely to fail.

Another way to consider the challenges, and the plight facing many governments, is to observe demands moving from the lower-right part of figure 4.1, that a strategic developmental state is well suited to address, to the upper left: problems become more complex – simple ones have been solved, and the human society becomes more complex and globally integrated worldwide where an integrated strategic response becomes impossible. Faced with such demands, governments have become less integrated over past years. On the one hand, this represents a deliberate choice, driven originally more by efficiency priorities than by growing complexity, in particular with the widespread adoption of New Public Management (NPM). On the other hand, in Europe and the U.S., governments must now respond to more disparate and polarized public opinions, with the rise of populist and extremist parties or factions breaking the moderate consensus of many democracies and operating as a force of democracy dysfunction and political fragmentation.

Figure 4.1. Contingencies in government action modes

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The parliamentary systems in developed countries also differ in how they enable governments to address complex challenges. Two-party ("Whitehall") democracies have more integrated governance systems than multi-party democracies. While two-party systems alternate large parts of the government following elections, multi-party democracies must form coalition governments and deal with a more permanent civil service. In theory, given its cognitive diversity, a multi-party system can be more strategically agile, submitting policy initiative to multiple scrutinies. Nonetheless, agile implementation of a government strategy is easier in the two-party system, where commitments do not have to be patiently and painfully negotiated and agreed upon line by line only to turn into a straitjacket.

The combination of growing external demands for policy integration, rising political fragmentation, and the inheritance of NPM, creates powerful, intrinsic barriers to civil service reform and renewal.

The strong assumptions made by most governments – as inherited from history and ideology – have morphed into orthodoxies that serve the specific interests of established civil service bureaucracies.

According to Micklethwait and Wooldridge's (2014) summary of much research and many observations, and consistent with the sources of rigidity we identified in chapter 1, they are:

• A reluctance to outsource, and a pressure to internalize all activities, to the benefit of a privileged civil service;
• A belief in traditional, centralized hierarchies;
• An ethical and emotional penchant that favors uniform, universal and egalitarian service, which neglects the growing range of needs and desires of citizens;
• A fear that "change is for the worse", often from direct experience with botched reform, but also as a threat to the benefits and advantages that members of bureaucracies have enjoyed.

In sum, governments are poorly equipped to understand what the public wants and needs and often stubbornly reluctant to question their own behavior and motives.

Beyond these inherited orthodoxies, government administrators may consider themselves as providers of a guarantee against political extremism, instability, or over-reach. As they see it, their role is to safeguard essential functions and services of the state against political volatility.

Furthermore, as in any large organization, sub-units will develop their own perspectives and priorities, and hence their own goals and parochial objectives (Simon, 1947; Crozier, 1964; March & Simon, 1958). Because civil servants

are usually in a "monopoly" position to provide essential services, the unions wield considerable power; for example, the air traffic controllers' strikes in Europe blocked the renewal and integration of air traffic control processes and technology.

In addition, the growing strength and immediacy of media attention, along with the development of social media, political websites, and blogs, paradoxically hinder change. Media exposure heightens fear of failure or of "rocking the boat". This only encourages political posturing and short attention spans – enough time to torpedo or damage a policy, not enough to look for any results.

The reluctance of politicians, and to a lesser extent of senior civil servants, to encourage objective assessments of policy effectiveness compounds the challenge. There is, they fear, no analysis but partisan analysis, and thus would rather not engage in any or trust any.

The dynamics between politicians and civil servants further undermines the ability to achieve strategic agility. Politicians are to set priorities and policies and civil servants have to operationalize and implement them. In blunt terms, if these policies succeed, politicians take credit; if they don't, civil servants get the blame. That makes for thankless work and an understandable risk aversion. In many countries the growing politicization of upper levels of civil service adds another layer to the challenge, not just hierarchically. Politically appointed ministerial cabinets and advisors selected for their loyalty and support rather than on the basis of managerial skills or substantive expertise promote the visibility and success of their leaders in the eye of his/her electorate, which is not a recipe for integrated "whole of government" long-term action. Even in majority-rule systems, factions jockeying for positions within the majority party in succession tournaments discourage collaboration. Trophy appointees seldom make for collaborative servant leaders.

The overall consequence of this politicization is that rewards accrue to civil servants who can show clever loyalty within the current administrative and political set-up. They need to master it, understanding its workings in detail through experience – successfully maneuvering the labyrinthine corridors of power is at a premium. This is a costly personal investment in the current system and its mechanisms, an obvious disincentive to change it!

Lastly, change is intrinsically difficult in complex systems. Various stakeholders, such as ministries, approach a complex problem from their own selfish interests and perspective. At their worst, they neither grasp nor perhaps care about the contexts that other stakeholders face, and therefore are unable to address the issues they have

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in common. This makes discovering a solution almost impossible – particularly as "solutions" may suffer from a "Condorcet Paradox" problem, according to which there is circularity between the choices of the various stakeholders, preventing any stable agreement from emerging. It is also why the methods of adaptive leadership, such as practiced in Scotland at Elvidge's initiative are so important: they provide a way to overcome partisan differences, and search for effective solutions that transcend the initial positions of the various stakeholders to the implementation of which all can truly commit. Of course, in many cases, "plumage displays" and ego battles unfortunately remain more important than reaching an effective solution.

In short, government bureaucracies are hamstrung by well-entrenched parochial interests, defending the civil service and specific activities within it, based on strong beliefs and orthodoxies to defend the status quo. All is not lost, however.

Enabling people

In most countries, civil servants are eager to "do good" for the country and its citizens. While vested interests may hide behind claims of "serving the general interest", within a set framework civil servants often evince an exemplary loyalty and integrity.

Their latent energies, a unique asset of the civil service, must be mobilized. However, civil servants' energy has been stymied by the rules and procedures that regulate power and influence. In hierarchical bureaucracies that operate within narrow silos, it is stifled – there is little room for collaboration, let alone initiative and experiment. The few success stories of renewal in public service, as in Scotland and Sweden, suggest middle managers will embrace reforms giving them more autonomy, combined with the opportunity to collaborate laterally at their own initiative, while at the same time liberating them from a controlling hierarchy issuing directives and orders. Should they recognize in government a greater capability to respond to their needs, citizens will come to appreciate adaptation and experiments and support civil servants. In other words, most civil servants are eager to grow in their role, responsibilities, and relationships, which citizens will find support.

Given the opportunity, civil servants can also orient themselves for the medium or even long term, as strategically sensitive participants in policymaking. The positive flipside of depending on politicians, who necessarily think almost exclusively in the short term about the next election or the latest poll, is that permanent senior civil servants can responsibly take a longer-term perspective.

The negative is the odds of political support – beyond lip service – are low and personal risks are high.

Third, civil servants are by and large highly educated and competitively selected. Of course, graduate and post-graduate education may become inbred and narrow minded, as with the Ecole Nationale d'Administration in France. While this has the obvious advantage of developing a relatively homogenous elite, it reduces intellectual and managerial variety. Nonetheless, when politicians allow them, civil servants with specialized training can take a broad systemic view, at least perceiving the interdependencies between various policy domains. Some multi-ethnic countries can also benefit from multiple cultural perspectives on governance and strategy, where more creative and thoughtful policies may result from the confrontation of these perspectives.

Growing decentralization also enhances the potential for useful experimentation. With the devolution of functions and services to local administrations, and a relaxation of some procedural and fiscal constraints which require ad-hoc exemption from general rules, greater independence, differentiation, and experimentation become possible at the local level.

Releasing the potential

As we saw with Scotland, a strategic vision of a compelling national future from the political leaders is a necessary precondition to decisive progress. Without such a vision, one can still develop integrated policies and "whole of government" actions to address complex challenges, but the energy and commitment to act successfully may well be lacking. National ambition, rather than electoral tactics, must form the basis for sustained coherent "whole of government" action.

Second, some flexibility in governance mechanisms and administrative rules and processes can provide a starting point for resource fluidity. Both elements of The Scottish budgetary framework (one created by Scottish parliament and the other stemming from the underlying budgetary relationship with the UK government) allowed operation of the whole of government budget, even before the formal changes accepted later by the Scottish parliament. This provided a decisive impetus to Elvidge's efforts, enabling him to establish an allocation system to individual spending programs that could be adjusted informally as a function of needs and savings in the course of the fiscal year. The ability to achieve some fluidity in a discreet fashion, without laws having to be voted and attracting media interest (of course, in the absence of legislative control internal checks and

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balances are needed and may still stifle initiatives) may confer an advantage in terms of policy quality.

Third, the rules of engagement between politically elected leaders and career civil servants should be clear. In particular, the workings of ministries should be left to the permanent civil servants. Appointments of cabinet secretaries and others as political spoils or to reinforce ideological lines need to be minimized.

Fourth, among career civil servants, movements between departments and ministries or agencies needs to be feasible, career mobility across ministries should even become a significant or routine practice. This promotes leadership and management skills as the principal criteria of appointment to senior positions, so that senior civil servants are not bound by a narrow domain of expertise or by a process that rewards intellectual brilliance but neglects practical leadership skills. Experts and specialized analysts should remain in more junior ranks or be brought in, on a case-by-case basis, from the outside (universities, research institutes, consulting companies, etc.).

Beyond these preconditions, skilled, and somewhat Machiavellian change leaders are needed (i.e. benevolent leaders) but without any naïveté regarding the clever and judicious use of influence and power. A deep, warm and realistic understanding of human nature helps. Cynical politicians or simple-minded technocrats won't suffice. Sophistication and intellectual discipline are crucially important to understand social systems as structured human interaction, in this case for purpose and action. We stressed earlier that change leaders need to be masters of the emotional and cognitive dimensions – not merely as the formal organization and prescribed relationships as specified in rules, processes and procedures – but as vital forces to harness.

When bureaucratic processes prevail and become deeply ingrained, negative consequences follow. First, workers and managers lose self-esteem when society no longer appreciates them, e.g. the plight of teachers in many European countries today. Second, shirking becomes acceptable. The objective becomes to escape work, perhaps leading even to corruption in the use of bureaucratic power to extract personal benefits. The challenge may be particularly difficult given the basic types of civil servants: some do feel a true vocation to serve the citizens, to contribute socially to collective well-being, while many others "end-up" in a civil service job for reasons of employment security and an undemanding routine. For strategic agility to develop, the first group needs to be predominant, not just at senior levels, but also among rank-and-file employees.

The needed skills

The managerial skills of senior civil servants – their ability to take practical concrete action, to lead people, to listen and discern – are often overlooked. Instead, academic achievement and intellectual prowess tend to be the principal factors in their selection, appraisal, reward, and promotion. In most countries, there is minimal mobility from the private sector to civil service, hence little injection of managerial skills at intermediate levels of the hierarchy.

Change leadership skills are also scarce, in large part because becoming a skilful operator in the current administrative context does not prepare one to challenge or change the system. It may well run the other way: being successful blinds one to the need – or even the possibility – of reforming the system. Furthermore, traditional public management models seldom incorporate a sense of what creates energy, what drives action, what elicits commitment. Traditional models have been rather closer to "theory x" (coercive, hierarchical, autocratic) than "theory y" (participative, engaging, pluralistic).

And as we saw in Scotland, achieving strategic agility in a pluralistic context is particularly difficult, and the conventional wisdom of change management rarely applies to pluralistic contexts.

The skills to nurture strategic agility in a government context are straightforward, but demanding. Without attempting to draw a fully comprehensive list, we would highlight a few key areas for skill development, and for selecting, appointing, developing, promoting and rewarding senior civil servants.

For strategic sensitivity, besides attitudes that are not really skill-driven, such as curiosity, a few capabilities are key.

First is system thinking and stakeholders' analysis. Systems analysis requires a tolerance for uncertainty and a partial understanding that a reductionist, Cartesian mind finds difficult to accommodate. According to recent brain imaging research, there is no brain area dedicated to the form of mental activity required for systems analysis (Goleman, 2013). Yet it is the key to overcoming "normal", often simplistic and "lazy", thinking, which undermines the definition and choice of policies when systemic interdependence is high. Effective "solutions" can be found only from a good understanding of problems that are often nested in the intersection of multiple stakeholders' perceptions and interests.

Second, strategic foresight is key. While it requires special talents – being future-orientated and/or having a superior pattern recognition capacity – foresight tools and techniques nonetheless can be learned. Scenario planning

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is perhaps the most widely used, but other techniques kick in when situations are complex, such as avalanche modeling. Underlying all this is a need for hypothesis reasoning (Thorsden et al, 2009), combined with practice. Developing a rich set of key hypotheses on a situation (and how it may evolve) heightens sensitivity to weak signals and enhances pattern recognition capabilities. In other words, "we have not seen this before, but we have thought the possibility through" – remember the Israelis, the Americans, and the 9/11 attacks.

In addition, the ability to recognize and distinguish bad strategies from good is essential to strategic sensitivity (Rumelt, 2011). According to Rumelt there are four telltale signs of bad strategy: fluff, i.e. a lot of words yet little of substance on what the strategy is; mistaking objectives for strategy, e.g. a lot of numbers, yet no explicit logic; lack of focus on a challenge or "what's the problem we are trying to solve"; and finally, an unrealistic, or even infeasible, action program associated with the strategy, leaving deep doubts about its intent and practicality. In reality, of course, the devil is in the details. But strategic analysis and assessment can be taught and learned with practice – some simulated in training game cases and the like, some through actual experience.

Honing strategic sensitivity is not an individual act. While again some enabling factors are not skills but perhaps personality traits, such as the networking ease of the extrovert, dialoguing skills can be learned as well. Furthermore, an appropriate level of abstraction in dialogue is needed: too low and it is impossible to communicate across functions, policy areas and domains of expertise; too high and it leads to academic exchanges of little impact.

Analogue reasoning (derived from lateral thinking) is also key to creative understanding from strategic sensitivity. Most significant innovations in society as in government do not originate exclusively from technology or science as catalysts for some new possibilities, but in the development of an implementation framework (in business parlance often referred to as a "business model"). This framework transforms a new possibility into tangible action, attempting to make the possible real.

Lastly, contextual awareness, or "metacognition", is important (e.g. Thomas & al, 2012). New knowledge and new insights do not come pre-packaged for easy consumption. They originate from varied sources – different countries, institutions (businesses, NGOs), and fields, etc. Their translation, importation, and reinterpretation require awareness and understanding of their original context. This can be summarized as "becoming street smart, everywhere!"

Civil servants are typically steeped in their own contexts, with little awareness and even less understanding of others outside of their silos. National pride, and the pride of belonging to the civil service does not make them receptive to diverse contexts, nor easily able to develop metacognition skills across them.

Resource fluidity raises its own skill challenges. Integrating policies drawing on resources and capabilities from multiple ministries, agencies, service providers and civil society calls for collaboration across the barriers that separate these stakeholders. To do so, collaboration skills can be learned. First, adaptive leadership processes for common solution discovery and joint commitment can facilitate the search for good policies, solutions, and decisions, eliciting high levels of commitment to a jointly developed policy decision. Adaptive leadership is a discipline (Heifetz, 1998), which is practiced through a set of processes, methods, and tools (Heifetz, Linsky and Grashow, 2009).

Beyond adaptive leadership, integrative negotiation skills – the thoughtful search for "win-win" outcomes over the long term – are essential. Integrative bargaining for longer-term collaboration can be developed, studied, and acquired over time.

Several of the skills we highlighted under the heading of strategic sensitivity also contribute to resource fluidity: systemic thinking allows us to envision comprehensive solutions and understand the various stakeholders' likely interests. Dialoguing skills are also important when seeking collaborative relationships over time.

Last but not least, resource fluidity is not a simple, top-down exercise in allocation. In government as in other large organizations, one must be on the frontline to gain knowledge, where the services are delivered, citizens meet, concerns are heard, and issues explored. Power to allocate resources remains at the center – or at least at a regional or municipal level – but wise resource allocation relies on knowledge drawn from the periphery of the organization, where it serves citizens, principally, but also where it is in contact with the outside. Governments need to engage in more local experiments than they are doing.

Moreover, stronger entrepreneurial skills are needed at all levels in the civil service. This requires taking an idea, shaping it into a concrete initiative, garnering support in the corridors of power and commitment from participants, resourcing experimentation properly, and designing it to maximize its learning-to-cost ratio. There too, some of the entrepreneurial energy is innate, and individually idiosyncratic, some is contextually dependent – i.e. an organizational culture and process issue – but some is also enhanced by proper skills and training.

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Third, collective commitment relies on all the skills we have highlighted so far. Healthy well-honed strategic sensitivity, a robust and flexible resource allocation process, and strong collaboration skills elicit collective commitment.

Conclusion

Although "renewing Leviathan" has often been seen as "mission impossible", there is hope that a more strategically integrated government will lead to effective action. Of course, for each individual country, we need to diagnose starting positions, acknowledge their unique barriers, and elucidate precisely why and where we need strategically integrated action. This latter point allows us to focus and economize during this demanding process – not all problems require integrated strategic whole of government approaches.

But then we can release and leverage the latent energy of the civil service – the will to do good – and channel it effectively towards not only specific problems but also towards the development of strategic agility as a sustained capability.

5. Implications for Finland

The purpose of this last chapter is to analyze Finland in light of the strategic agility framework introduced in this report. We will conclude with recommendations to improve the functioning of the government.

The challenge at hand

Finland developed from a "laggard" to one of the leading developed countries since the Second World War. The idea of "catching up" with the rest of the world and building up a modern welfare state with strong industrial foundations united and strongly motivated the Finns. A consensus across political parties in key policy areas – education, innovation and social policy – together with the youth of the population provided the direction and energy to implement Finland's "formula of success".

But today, Finland finds itself in a new situation. Although its competitiveness ranking is still high its growth is falling behind that of the rest of Europe. Though the first signs of weakening real-term competitiveness – losing market share in global trade – appeared towards the end of the previous decade, only recently has Finland begun to formulate a response.

Furthermore, because the country's public finances are shaky, the fast-aging population, combined with increasing demands for service, put additional pressure on Finnish decision-makers. At the same time, global problems of unprecedented complexity are on the rise, including climate change, youth exclusion, structural unemployment, etc.

There appear to be no easy fixes. Most of the upcoming challenges are structural and systemic by nature and call for integrated action that cut across political, societal, and administrative boundaries. On the positive side, the sense of urgency has recently grown. In spite of this, the current government has encountered significant difficulties in its attempts to find new solutions and make collective decisions that stick - the "government apparatus" and "old recipes" simply don't seem to work anymore.

Finland's current governance model

From the early 1990s, the Finnish constitution has gradually evolved from a semi-presidential regime into a typical government-led democracy. In its current form, the president functions as the head of state, with responsibilities for the foreign and security policies of the country in collaboration with the government. The Prime Minister (PM) leads the government of Finland; the PM is typically the leader of the largest party that wins the four-year election cycle.

Once the parliamentary election results in Finland are in, the chairman of the biggest party immediately begins negotiations to form a government. If he/she manages to get support for his/her government program in parliament, he/she becomes the PM. The government program – in effect the blueprint that the government wishes to carry out – is negotiated as an integral part of this process. Each party brings its agenda to the negotiations and the final government program is the culmination of their political compromise. In addition to this, the ministries, different lobbying organizations, such as unions, provide their input to the parties before and during the negotiations. As a result, the government program in Finland has, since the late 1990s, evolved from a high-level "priority list" into a very detailed 100-page document with innumerable, highly detailed and sometimes inconsistent action points.

As part of the government negotiation, the PM appoints ministers (currently 17), who are responsible for the 11 autonomous ministries. The distribution and party affiliation of ministerial seats are also decided on the basis of political negotiations between the coalition parties. The proposals come from the coalition party leaders.

The mandate of the ministers and ministries in Finland is very strong and broad, with their autonomy explicitly enshrined in the constitution. As heads of their ministries, the ministers are personally responsible for all policymaking in their respective area of responsibility. All government agencies and research centers report directly to one of the ministries.

Each ministry is run by a non-political Permanent Secretary (PS); the responsible minister proposes a PS, who is appointed by the government for a five-year, renewable term. The PS acts as the highest-ranking civil servant in the ministry and is responsible for its policy preparation and administration.

The fiscal management of Finland is the joint responsibility of the parliament and government. First, the government prepares the budget proposal by key activities within ministries. Then, it submits this to parliament for approval. Once approved, the parliament assigns the management

responsibility for the plan to the government. In the mid-1990s, as an attempt to institutionalize the independence of the ministries in the management of their funds within the four-year electorate period, Finland adopted the so-called framework budgeting practice; in connection with the new government formation, each ministry is awarded a four-year framework budget.

Strategic agility in Finland today

We will now examine in detail how the three vectors of strategic agility function – or in many cases don't – in Finland.

Strategic sensitivity

The missing ambition gap. Within the consensus-driven Finnish political culture, a conscious and purposeful creation of tensions – to highlight the gap between what the government should achieve and what it is currently doing are neither typical nor desired behaviors.

Policies in Finland tend to be developed incrementally by experts from within their respective ministries. Expertise is highly regarded and the autonomous mandates of the ministries are respected in both law and custom. Moreover, because the political process before and after elections in Finland does not produce a shared strategic agenda for the country, the existing agendas from each ministry typically form the bases of the new government program by default. Furthermore, policy alternatives (particularly those that propose ambitious, even radical, changes) do not easily emerge from inside the ministries, in large part because career development usually takes place from within a single ministry, which operates in a strictly defined "silo". Finally, experiments to bring new evidence or to test policies in practice are rarely carried out in Finland. As a result, incremental developments along existing trajectories continue and no ambitious cross-sectoral change agendas are typically brought up.

Growing input diversity. In an attempt to make greater room for new strategic perspectives, in 2013 the Finnish government decided to re-allocate to the PMO a small part of the financial resources from the ministerial research institutes into a shared research pool. This money would be used by the government to promote cross-disciplinary "strategic studies" to address the "challenges facing Finland". In addition, a new Strategic Research Council was established in the Academy of Finland for managing a pool of funds aimed at addressing "grand challenges" of the world (like climate change) in a cross-disciplinary manner.

The Finnish government has also recently used independent task forces to address some challenging policy areas, such as internationalization and FDI or ICT-based economic renewal. While the reports produced by these executive-led independent task forces have been received well, putting them into practice as genuine working documents has proven difficult.

Furthermore, Sitra, the Finnish Innovation Fund plays an important role as a "change agent", a kind of "think and do tank" for the country. Operating directly under the parliament Sitra is expected to challenge the status quo in the country by introducing and testing new operating principles and models in various policy areas.

Improving, if flawed, foresight capability. Finland has long produced "future outlooks" reports from each ministry for the purpose of their own long-term planning. However, this exercise rarely consults outside experts and there is little collaboration across ministries during the process. So far, the role of the Prime Minister's Office (PMO) has been to consolidate the ministries' reports into a collection of "future outlook" reports for the government. The principal problem with this approach is that it is based on an incremental extrapolation and, at worst, it may only reinforce existing, and essentially separate, strategic perspectives from each ministry.

In order to improve on the current situation, Finland's government mandated the Prime Minister's Office (PMO) in 2012 to define and implement a continuous foresight process for the country. The motivation for the new process – owned by the PMO – is to produce an integrated, 10-to-15-year foresight exercise for the whole country, which should serve as a common basis for political dialogue and decision-making. If successful, this "map of alternative futures" would provide all stakeholders with a shared factual basis and common assumptions for Finland's policy agenda, including for political parties. Engaging various stakeholders via multiple methods, for example focus groups and social media, should also help to ensure a richness of inputs and commitment from everybody to the resulting outcomes. The principal challenges of the new process are: a) to acquire the full commitment of independently functioning ministries to a shared process and outcome; and b) to integrate the outcomes of the process into the political deliberations of the parties.

Need for more intense communications. Since the Second World War, Finland has benefited from a consensus regarding the creation of a modern welfare state and the trust that key societal actors share in maintaining and perfecting it. As a small country, it has been relatively easy

to gather the relevant decision-makers together to agree on key policy topics. Unfortunately, in recent years, with the specialization and increasing autonomy of key stakeholders, such as ministries, municipalities and unions, the quality of this dialogue has declined. Personalization of politics and narrow self-interests of small cliques within various stakeholder groups further weaken the quality of dialogue. Sacrificing own self-interest for the common good is increasingly seen as a weakness. Key decision-makers in Finland still meet, but they rarely forge collective commitments to do anything really new, particularly when it comes to multifaceted, cross-societal problems. Moreover, where ethnic and intellectual homogeneity of influential stakeholders might have contributed to fast decision-making in the past, it now threatens to become an obstacle to "out-of-the-box" thinking.

Furthermore, the effectiveness of some of Finland's cross-governmental and cross-societal forums seems to be in decline. For example, Finland's Innovation Council, chaired by the PM, was originally established as a forum to discuss innovation and science policy between key politicians, civil servants, business leaders, and academia. In the late 1980s, the Council's ambitious goals helped to secure high levels of investment in R & D through the difficult years of the early 1990s. However, the 2014 evaluation of the Innovation Council revealed that its role and impact had declined to the point that it has become just another official meeting among bureaucrats – well-prepared agendas and polished presentations had taken over insightful dialogue and collective learning.

Sitra has over the years provided an important "dialoguing platform" for Finnish decision-makers. Apart from a hiatus from 2004 to 2012, Sitra has been organizing "economic policy" training courses for top decision-makers across society three times per year since the 1970s. In addition to substantive education, these courses aim to provide a place where decision-makers from across the society can learn about, and hopefully come to appreciate, each other's perspectives.

Resource fluidity

Reallocation of resources and responsitibilities is stalled. The mandates and independence of ministries in Finland are very pronounced. The ministries have a constitutionally guaranteed autonomy dating back to the era of the Russian Czar; in those days, strong autonomous ministries effectively protected the people from political turmoil. However, times have changed. After the election, the PM appoints ministers, who quickly adopt the identity of the ministry and thus become "hostages" of

their respective agendas. Once the government program has been approved and budget allocations to ministries have been submitted, it is very difficult for the PM and the Government in Finland to reallocate resources across ministries.

In principle, the structure of ministries in Finland can be changed with the permission of the parliament at the moment that a new government is formed. However, apart from the merger of Ministry of Economy and Ministry of Employment in January 2008 (following the 2007 elections) this option has not been used in Finland due to political and administrative considerations. The existing and well-established territories have rather been respected by all parties.

In an attempt to increase its political influence and integrate government-wide policies, the Finnish government adopted in 2007 a new practice in which ministers were able to appoint their own political state secretaries. Unfortunately, the new "system" has confused the roles and responsibilities of civil servants (who should prepare and implement policies) with that of politicians (who should provide direction and make final decisions). Moreover, co-ordination of political agendas by state secretaries is not functioning in an optimal way since the political state secretary "system" is not consistently implemented across all ministries.

Efforts to "break out of the silos" have met with little success. First, Finland experimented "horizontal programs" to support the top three priorities of the 2007-2011 government program. The government appointed program directors to the PMO as co-ordinators for their particular priority themes across all relevant ministries. Unfortunately, the effort failed, largely because the program directors had minimal human and financial resources to manage their respective areas. In other words, all resources and decisions remained ultimately in the hands of the ministries. In 2011, the government appointed "lead ministers" to look after three priority areas of the government program. However, no clear goals were articulated and no integration or funding mechanisms across ministries were established to support these priorities. As a result, no material change took place – no government program priorities that required cross-ministerial integration received more attention.

Second, there is the Prime Minister's Office (PMO). Once or twice during the government program, the PMO evaluates how the different initiatives contained within it are progressing. This is a difficult task because the incentives of ministries are not tied directly to these goals and no management system exists to track the various items

directly. As a result, PMO evaluations seldom lead to resource redeployments.

Government-wide co-ordination in Finland functions best in matters related to the European Union. A ministerial council responsible for EU matters was established right after Finland joined the EU in 1995 with a mandate to manage EU affairs in a holistic manner. The EU council is supported by a strong unit in the PMO whose task is to prepare all matters in good co-operation with the ministries. The council convenes on a weekly basis and it is capable of formulating Finland's point of view on any EU matter very quickly for the final decision-making in parliament.

Integrated support functions: shared information infrastructure is not yet in place. Each ministry and municipality in Finland has its own, separate administrative support services. The unique exception is IT, where the head of function residing in the Ministry of Finance has the mandate to develop nation-wide IT architectures and standards for the whole public sector. There is also a new Information Management Law that mandates the central IT department to eliminate projects not in line with the national standards. This law has not, however, been used so far and the multiplication of systems has continued.

Nonetheless, ambitious goals have recently been set. The current government is investing heavily to build a shared, nationwide information platform to provide e-services to citizens. With agreed-upon IT architectures and standards, this new platform should enable both the public and private sector to develop e-services in a very localized and fast manner. If successful, the transparency and efficiency of the government will increase, as would "customer satisfaction" as a result of more customized services. The implementation of this new information gateway will put the current decentralized government operational model to a very difficult test.

In another step towards supporting function harmonization, the current government decided in May 2014 to build a shared administrative services unit in the PMO, to begin operation on March 1, 2015. This new unit will direct, align, develop and provide shared administrative support services (F&C, HR, IT, Facilities, Security, etc.) across the entire government. Approximately 500 people will be transferred to the new unit from the ministries. In addition to service harmonization and provision, the new administrative unit of the PMO is expected to promote a shared culture and collective identity throughout the government, i.e. to encourage it to operate as a single, unified government as it does in most other developed nations.

Collective commitment

Little mutual understanding and poor dialogue. The intensity and quality of dialogue between ministers suffers from Finland's decentralized government structure. This structure and the whole management system favor isolated, vertical silos within each ministry rather than horizontal, cross-ministerial collaboration.

To overcome this, the government has over the years developed other co-ordination mechanisms for enabling horizontal communication. Since the 1970s, the government has run a so-called "Cabinet evening school". Its original purpose was to provide an informal, open-ended forum, to which only Cabinet members were invited, where they would reflect on upcoming challenges from different perspectives without any decision pressure. Unfortunately, this forum has gradually turned into a ratification meeting for a predetermined agenda in the name of efficiency and the usual power struggles. In addition to the ministers, their political state secretaries and advisors now also attend the meetings.

Currently, the most important forum for horizontal communication and the improvement of mutual understanding is the so-called "sextet" (now a "quintet", after one party left the coalition in March 2014). In this forum, the chairmen of all the parties in the coalition government meet under the auspices of the PM. Functioning as the first venue to discuss the most pressing and difficult issues, their meeting typically precedes official meetings of the government.

In addition, the secretary of state in charge of the Prime Minister's Office (PMO) chairs a bi-weekly meeting of permanent secretaries from the ministries. The principal contribution of this meeting has so far been on administrative matters (ref. the new Shared Administration Unit in the PMO). Because it lacks the mandate to develop policy agendas, this forum cannot do so. Policy matters are always discussed first within ministries and with the minister; from there, decisions are taken directly to government – only rarely are they discussed elsewhere.

The State Secretary in charge at the PMO in Finland has also initiated and supported actively a voluntary and informal "Change Makers Network" that consists of civil servants from all ministries; their mission is to promote and empower new leadership practices and culture across the whole government.

Lack of shared agenda and incentives. In the late 1990s, the introduction of government programs and framework budgets sought to improve efficiency and clarify the roles and responsibilities, respectively, of politicians and civil servants. The politicians were to define what to do,

whereas the ministries and agencies were to prepare and implement policies in a professional manner. A four-year government program and framework budget would provide the ministries with the "freedom" to function in their best interest. This division of labor worked well within each ministry. However, it did little with regard to cross-governmental problems, which as we have seen are emerging as far more challenging and important to society as a whole. Regardless of how clear the roles and responsibilities between politicians and civil servants might become, the Finnish government cannot effectively assign cross-governmental tasks and channel resources into cross-ministerial projects unless it can create a truly shared agenda with a few cross-governmental strategic priorities and goals. A good shared agenda – or a government program – distinguishes clearly those strategic priorities of the government that: a) require deep integration (typically structural cross-societal changes); and b) can be carried out by distinct ministries.

As today, Finland's government program is all too operational and fails to outline shared priorities. The action points of government programs combine both the agendas (both strategic and operational) of each ministry and the inputs from a variety of lobbying organizations. The resulting government program is a bottom-up compilation of individual, often conflicting, intentions with little to do with coherent strategy – it is a reflection of the unwieldy nature of the "multiple governments" that operate in the place of a single, unified government. An additional challenge facing the Finnish government program is the lack of outcome measures, with the exception of macroeconomic aggregates.

In 2012-3, a promising example of a shared strategic project – not only across ministries, but involving private-sector stakeholder participation – was undertaken in ICT. Under the leadership of a former Nokia executive the task force drafted a strategic roadmap for the country's ICT development, the "21 paths to a frictionless Finland". Rather than just another committee-advocacy report, the effort produced a new "operating model" mandating continuous following up for further iterations of the roadmap. In addition, the leader of the task force sought personal commitments from all major party leaders to the new agenda and operating model. Finally, all party leaders agreed to continue the program regardless of the composition of the next coalition government.

Little institutionalized job rotation. The many attempts to promote job rotation across ministries in Finland have met with minimal success. Without norms and incentives to encourage job rotation, most civil servants find it too risky; there is also the issue of synchronizing or integrating career objectives with the rotations. Moreover, because substantive expertise is highly valued in the civil service, it serves as the most important qualification for promotion to top posts within each ministry silo. Leadership ability and competence in change management and other practical accomplishments remain undervalued.

Conclusions

Finland has been neither actively nor effectively reforming its governance model in spite of the dramatic changes sweeping the world. The guiding principle has been for too long "if it ain't broke, don't fix it". Even in times of severe crises in the early 1990s, very little change in the actual governance model was carried out. The country survived by making bold spending cuts while continuing to invest in R & D.

Furthermore, the incremental improvement approach of Finland has resulted in additional rigidity and cost as new generations of civil servants and policymakers have simply tacked on minor improvements on top of the earlier ones, layer by layer. This "muddling through" cannot continue – the cost of not addressing the now obvious cross-societal challenges through major structural changes is becoming too high. In order to survive and thrive on change, Finland needs to reform its governance model and – culture.

According to our analysis Finland's strategic agility remains weak in spite of many attempts to put enabling mechanisms in place. Why? The principal problem, in our view, is the lack of integration between various "capability-enhancing enablers", combined with the absence of certain "critical enablers". The new national foresight process does not provide much strategic sensitivity unless it is deeply integrated into the policymaking process, and ultimately into the government program of the country. Moreover, resource fluidity is very limited. Until all ministries start using the shared administrative support services and stop providing duplicated ones for themselves as they have always done, the new shared Administrative Unit in the PMO will be unable to improve resource fluidity and efficiency. The same applies to shared IT infrastructure. It is valuable only if used which, again, requires effective cross-ministerial implementation. Furthermore, while shared dialoguing forums such as the Cabinet's evening school and the permanent secretaries' meeting look nice on the paper, they fail to result in collective commitment unless their agendas are deeply tied to a shared government agenda.

The biggest problem, however, is that Finland lacks, according to our analysis, three critical strategic agility enablers:

1. Implementation of an integration process between activities fostering strategic sensitivity (such as national foresight process) and political decision making processes;
2. A shared strategic agenda as a common basis for government program – around which to achieve collective commitment toward energized action; and
3. A single, unified government approach with a "shared budget" for improving resource fluidity.
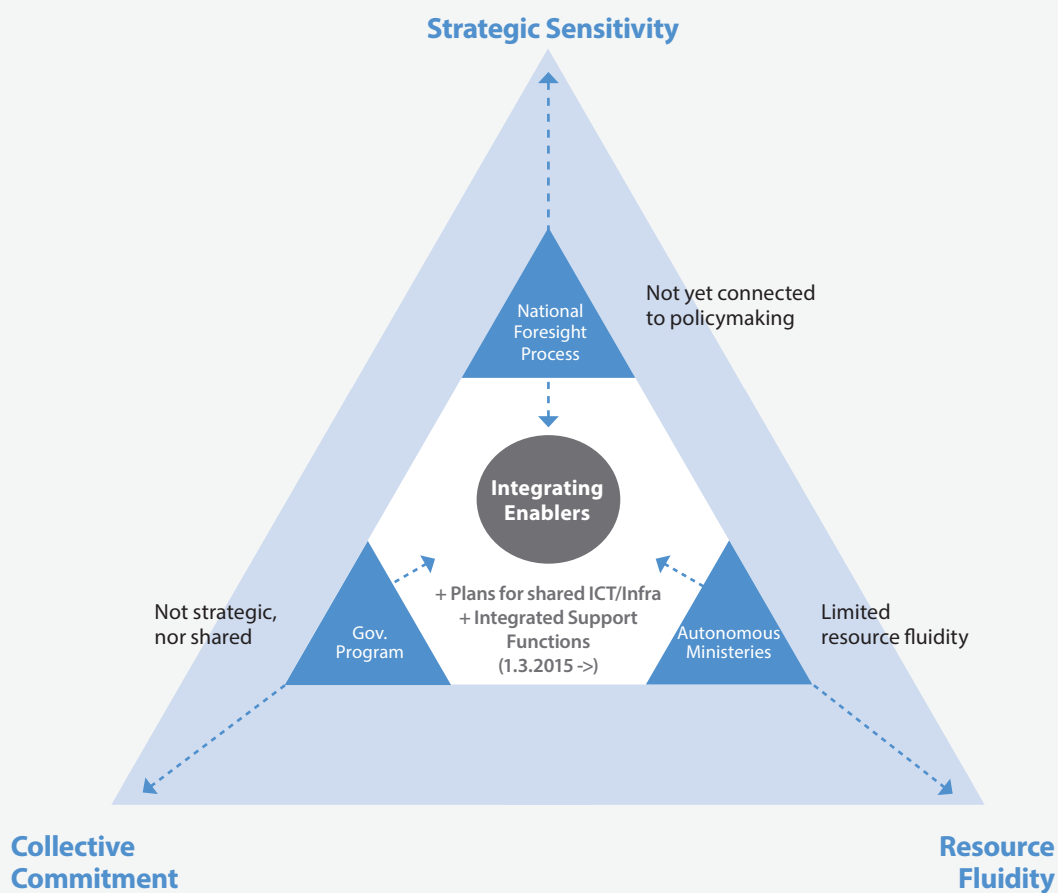
Without these critical – or cornerstone - enablers, it is impossible for Finland to become a truly strategically agile country.

Furthermore, these critical enablers must be in place at the same time, as an integrated system: a foresight process to provide the basis for a shared strategic agenda all commit to; a single, unified government approach to enable an efficient and flexible implementation of this agenda. One without the other two would not do enough.

In sum, the strategic agility profile of the Finnish government (see Figure 5.1. Strategic Agility profile of the Finnish government) looks relatively underdeveloped as compared to Sweden (Figure 2.2) and Scotland (Figure 3.1).

Let us take a deeper look at each critical enabler. As described earlier, Finland has recently taken steps towards an integrated national foresight process. The "front end" (data gathering, analysis and synthesis) of the foresight process was successfully piloted in 2013 with promising results; however, full implementation and integration into policymaking remain to be achieved. The 2015 elections

Figure 5.1. Strategic Agility profile of the Finnish government

offer a choice to Finland's political parties: they can adopt a new process to enhance Finland's strategic sensitivity or continue to operate in the traditional way.

The second missing cornerstone enabler is a shared strategic agenda with clear progress indicators for the government. The future strategic agenda – expressed in the government program – should be built by the political parties on the basis of the national foresight process. It should clearly define the three to five top cross-societal priorities/challenges (with progress indicators) that require deep integration across ministries. These challenges are typically systemic by nature and they can not be decomposed to actionable tasks carried out by individual ministries. They have to be managed in an integrated manner – preferably with their own budgets. The new government program should also define the management structure for these priorities as well as how the individual ministries are expected to contribute in achieving these priorities. It is also important to note that not all priorities require deep integration. Some of the priorities on the shared agenda may well be decomposed to actionable tasks by ministries. In particular, some priorities can be acted upon separately by one ministry or another but they need to fit within an overall national framework. They require strategic but not operational integration. The main thing is that everybody knows who is responsible for what and how each ministry can support each other.

If the government program of the next coalition is formulated in the way it has been traditionally – by cobbling together actions points from disparate sources without an effort at integrating them into a unified agenda – Finland will miss a crucial opportunity to change for the better. A massive document with hundreds of detailed action points would provide neither direction nor motivation to go beyond the immediate agenda of each separate ministry. Furthermore, planning and resourcing critical activities are impossible without clear, government-wide priorities. Without measurable, outcome-based goals for each strategic action, any follow up would also be problematic – regardless of all the political promises, nothing would change.

Reaching a true political commitment across parties and ministries over a coherent strategic agenda, or government program, is of course difficult in a multi-party country like Finland. However, it is of crucial importance in difficult times when structural changes are badly required. Inaction or "business as usual" can be more costly than a "roughly right" course that can be later adjusted. Therefore having a coherent strategic government program of a minority government can be a better solution than a non-strategic program based on political compromise of a majority government. Sweden and Scotland have both successfully managed their countries with a minority government for years.

Third, hampering collective commitment, the lack of true collaboration between ministries in Finland represents a significant challenge. When ministries and municipalities operate in near complete autonomy, this inevitably leads to sub-optimization. Without an integrative approach, addressing complex problems will remain, at best, a hit or miss proposition. Moreover, with ever-increasing financial pressures and citizen demands imposed on this "system", the fragmented nature of policy formulation and implementation will further disappoint the public, and add costs as a result of unnecessary duplication.

At the same time, one has to recognize that autonomy is not exclusively negative. Autonomy can enhance accountability, innovation and adaptability. It is of utmost importance to understand that autonomy and integration are not mutually exclusive. Both are needed at the same time. Some priorities of the government have to be addressed in an integrated manner and some need to be addressed by specific authorities. Therefore, the challenge at hand for the Finnish government is to increase collaboration and integration between ministries with all the available means, including organizatational design. However, as indicated in Chapter 3, the organizational "lever of leadership" should be always used last (after cognitive, relational and emotional lever of leadership), to solidify the desired behavioral change.

A democratically elected government should in our view have the mandate to align the organizational structure of the government in such a way that it optimally supports implementation of the shared agenda in the government program. It also has to have the mandate to swiftly reallocate resources (monetary and human) from one ministry to another, depending on changing circumstances. In practice this means that the Finnish government should have "one budget" which it can freely allocate across ministries depending on the need. Without the ability of cabinet (politically elected ministers) to impose its will based on its electoral mandate, central government will remain unable to implement its program and meet the expectations of citizens.

Furthermore, most of the other enablers of resource fluidity depend on a single, unified government approach. Creating a truly functional "talent pool", institutionalized job rotation system or information system architecture and standards are virtually impossible under the autonomous ministries. In our view, the new administrative unit

in the PMO will ultimately fail without a single, unified government approach. The ministries and agencies can always default to their own agendas and argue that "common services" will not serve their interests.

However, there are some encouraging developments as well. The recent the ICT 2015 program (carried out in 2012-2013) in Finland demonstrates the potential of the integrated approach that we are calling for. It is strategic, with a 10-year time horizon to which all key party leaders have committed. It includes a separate, cross-societal steering group that reports directly to the PM and his Economic Council, to review what has been accomplished and further develops the roadmap with proposals regarding resource allocation. It includes all the components of strategic agility: strategic sensitivity (i.e. a roadmap which is continuously adjusted), resource fluidity (i.e. resources can in principle be re-allocated "at any time", when needed), and collective commitment (i.e. all party leaders and stakeholders are committed to its implementation and development). This represents a good start, but only in one thematic area. Moreover, particularly in resource allocation, this program largely remains trapped within ministerial silos, which limits its range and scope.

Recommendations

To cope with the challenges ahead, Finland must adopt a truly unified government approach and put in place the critical/cornerstone – enablers for strategic-agility we have described in this report. This will make the difference between muddling through and building a truly strategically agile state. As a small, well-educated and open country, we believe that Finland could become one of the few truly strategically agile countries in the world.

We understand, of course, the magnitude and implications involved in this kind of fundamental transformation.

The changes we are proposing would not only change the relationship between central government and its ministries but also that of the government and the parliament. The parliament would provide the government with a stronger mandate to manage the country within the given budgetary frames. This would naturally require better reporting from the government to the parliament, particularly in the case of minority governments. As the highest decision-making authority in the country according to the constitution, parliament needs "tools" to control the government.

The power of the Prime Minister (PM) should also increase. As the chairman of the government, an empowered PM should be able to directly make changes more boldly and more forward-looking than those that Finland's current political system allows. A strong leader can often exert influence to overcome certain weaknesses of the current system, but not always. The system can not be overly dependent on individuals. The question really is: can Finland afford to have a government without a strong implementation capacity?

Citizens also have the right to expect that the PM and the coalition are able to "run the country" for the next four years of its electoral mandate, as it promised.

Amending the Finnish Constitution – a necessary prerequisite for the single, unified government concept – is also difficult and time-consuming, requiring a minimum of five years if the next government commits itself to it. Given the pluralistic nature of change in a country governed by coalitions, we propose a stepwise change process. Many enablers of strategic agility can be sharpened and put in place in an integrated manner quite quickly.

We propose the following:

Engendering strategic sensitivity

- Implement the integrated national foresight process as planned. This requires commitments: a) from all ministries to the agreed-upon foresight process; and b) from all political parties to include the outcomes of this process as inputs in their internal deliberations as elements for their strategic agendas or proposals for government program. Full commitment of the political parties would require them to be involved in the process from the beginning. This early engagement is not in place yet.

- Increase use of committees and "expert task forces" as providers of fresh inputs and perspectives into policymaking, integrating their outcomes and follow-up mechanisms more tightly into ministerial and political processes. ICT 2015 is a good model for this process.

- Strengthen rigorous policy and decision-making discipline by firmly establishing a new cross-disciplinary "research arm" in the Prime Minister's Office (PMO) and Academy of Finland.

- Since evidence cannot be always found, encourage experimentation and the leveraging of best practices in a systematic manner. Start encouraging and rewarding civil servants from "well-managed failures".

- Pay more attention to "cognitive diversity" in the ministries and PMO. Hiring people with different cognitive "maps" and skills (e.g. designers and change-management facilitators) will help in the discovery and implementation of new ideas.

- Encourage new informal cross-ministerial networks, such as the new Change Makers Network.

- Reinvigorate the original "government evening school" by a) limiting the participants to only ministers and b) adopting an "open agenda".

Enabling resource fluidity

- Assign "ministerial committees", each under a "lead minister", to take charge of the top three or five priorities of the government program. The "lead minister" should have the "biggest interest" in the priority in question. The other participating ministers of the committee would include those ministries with an interest in and ability to contribute to addressing the priority issue in question. Each committee would have their own specific progress indicators (created jointly by all the ministries involved in addressing the challenge in question) and these indicators together would form the "scorecard" of the government. Preferably, a specific budget should be allocated to the top three or five priorities. As a result, the role of the ministries would be to collaborate to fulfill the shared agenda of the government, in the process satisfying its "scorecard".

- Consider the "shared services" unit in the PMO as the first step in a larger strategic transformation towards a truly unified government. This will secure its successful implementation. Otherwise, the reform will only lead to duplication of resources and confusion.

- Develop clear norms for institutionalized job rotation across government, emphasizing change management and leadership accomplishments in top-post recruitment.

- Clarify the roles and responsibilities of state secretaries and advisers in the ministries and reduce the number of these jobs as much as possible. As it currently operates, the system only strengthens the "silo effect". Consider replacing political secretaries with democratically elected vice-ministers (i.e. elected from the parliament, as with ministers).

Earning collective commitment

- Challenge political parties to prepare a clear strategic agenda for the forthcoming elections, including the explicit articulation of approximately three to five strategic priorities. This would also help political parties to differentiate themselves.

- Seek commitment from all party leaders, in particular from the potential PM candidates, to a short strategic agenda/government program.

- Adopt a new two-phased government program creation process. The first stage would take place within

a week immediately after the election (in May 2015) by merging the strategic agendas of the potential coalition members. The second phase would take place during the next 2-3 months (July-September 2015) during which the coalition should create a coherent strategic action agenda with clear and measurable financial goals and indicators for progress.

- For the long term, consider adopting a political "block" system similar to that of Sweden. From Finland's three or four large parties, those with similar agendas would join forces prior to elections, in the process making their agenda transparent to citizens.

- Consider establishing a minority government (à la Sweden and Scotland) in case a consistent and shared strategic agenda (ref. government program) can not be reached.

A new culture and cultivating skills

None of the key enablers of strategic agility proposed above will realize their full potential unless the key politicians and civil servants adopt a single, unified government mindset – regardless of the organizational structure. Another important change relates to the transformation from a continuity-planning mindset to a strategic-agility one. In our volatile, interconnected world, the preservation of continuity is becoming a dangerous substitute for immobility – the future can no longer be planned out in a conventional, linear manner. We need to learn to cope with the future in a smarter, more open way with the help of the new capabilities and skills described in this report.

To make this happen, senior public sector leaders will need systematic leadership development and coaching. This education should be based on action learning – as behaviors do not change unless people experience and practice new forms of interaction and learn to trust their new skill sets. This calls for determined investment in leadership and people skills. Finland needs a world-class "civil service college". Since other countries face similar challenges in strategic renewal, it might make sense to consider expanding this effort European- or OECD-wide.

Finally, because nation states all over the world seem to be struggling with strategic renewal, we should create new indices to evaluate "Readiness for the Future". The obvious weaknesses of many Western democracies must be brought under scrutiny, which could pressure politicians to take action to improve the strategic agility of their countries. Otherwise we will have hard time in defending democracy as we know it.

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Mikko Kosonen has been the President of the Finnish Innovation Fund Sitra since 2008.

He worked for Nokia between 1984 and 2007, his last two positions being Senior Vice President of Strategy and Business Infrastructure and Senior Advisor. Kosonen has served as a board member with a number of companies and institutions, including Itella Corporation, Kesko, Kuntien Tiera Oy, Telia-Sonera, Fifth Element Oy, Technology Academy Finland and the Foundation for Economic Education.

Mikko Kosonen completed his PhD in International Business at the Helsinki School of Economics in 1991. He was awarded Honorary Professorship of Budapest Business School in 2012. He has published several books and articles on strategic management, most recently Fast Strategy – How Strategic Agility will help you stay ahead of the game (2008) and New Deal at the Top – Harvard Business Review (2007), both with Professor Yves Doz.

Yves Doz is the Solvay Chaired Professor of Technological Innovation at INSEAD, one of the world's leading graduate business schools, and a Professor of Strategic Management.

He has taught at Harvard Business School, Stanford's Graduate School of Business, Aoyama Gakuin University in Tokyo and Seoul National University (SNU), and has researched and published widely on the strategy and organization of multinational companies. He has co-authored many books including The Multinational Mission (1999), From Global to Metanational (2001), Fast Strategy (2008, with Mikko Kosonen) and Managing Global Innovation (2012).

Yves Doz has spent the last two years researching how the concept of strategic agility applies to the governance of countries and he now leads phase two of the "Governments for the future" research project at the Finnish Innovation Fund Sitra. He has worked with various European governments and has acted as a consultant for many multinational corporations.

In the rapidly changing, uncertain, complex, and interdependent world a new, strategic model of public sector governance needs to emerge. It must resolve the problems that confront the hierarchical and incremental policymaking approaches. This report proposes a framework and related practices for doing so.

A government with a strong capacity to create and implement policy is essential to any country. This report hopefully provides useful insight to public sector leaders, both politicians and civil servants, on how to manage the process towards a more strategically agile state at an acceptable level of risk.

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