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Building the capacity for strategy formation in local government

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REASONS AND CONDITIONS FOR STRATEGY FORMATION

For a variety of reasons many local authorities in Britain have taken steps since the 1980s to introduce or to reinforce a strategic approach to corporate management. This has been introduced, for example, in order to respond to a series of externally imposed changes (such as Local Management of Schools and Compulsory Competitive Tendering). It has been introduced to counter threats to an authority’s discretion as a result of government restraints, and to enable councils to take the difficult decisions that are entailed in complying with budget cutbacks. Finally, corporate strategies have been developed in order to help authorities to manage their relationship with an evolving network of agencies and quangos in the local area.

But, however good the reasons may be, these are not by themselves enough, and to ensure the successful development of a strategic approach a variety of other conditions must also be met. Of course some of these conditions are beyond the control of municipal leaders, either because they depend upon central government decisions (such as the ring-fencing of budgets) or because they involve deep-seated local constraints and dispositions. Other conditions, however, are much more amenable to local control and have therefore been a focus of concern to municipal leaders in strategy-building over the last decade.

The purpose of the present article is to consider the steps which councils are taking in order to meet the conditions necessary to establish and sustain a strategic orientation. The article begins with a conceptual discussion in which a distinction is drawn between the strategic direction and strategic capacity of councils, and hypotheses are developed regarding the conditions that are likely to be required for strategy formation. These ideas are then explored and illustrated by reference to

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the experiences of a self-selected group of 23 local authorities at a recent INLOGOV/CURS seminar in Birmingham. The non-representative nature of this sample is acknowledged, but it is argued that the study tells us something interesting about two dozen councils, and helps to refine questions that can be examined more formally by other means.

STRATEGIC DIRECTION AND STRATEGIC CAPACITY

A corporate strategy is a set of decisions about the overall direction of an organisation, decisions which integrate its various activities and plan the response to contextual changes in the medium or long term. To be worthy of its name a ‘corporate strategy’ must therefore be based upon conscious and deliberate decisions, rather than merely the de facto direction in which a council finds itself heading. Councils differ and may be classified according to their ‘strategic direction’ — the orientation of the corporate strategy which they are currently pursuing. The Local Government Management Board, for example, argues that authorities may decide their overall direction by reference to three key dimensions — the emphasis which is placed upon local governance or upon municipal services, upon market mechanisms or upon direct service provision, and upon services to the individual or to communities.¹

There is however a danger in focusing attention upon the substantive content of strategies if this leads us to neglect the difficult ongoing process of strategy formation. Of equal or greater importance for practitioners is the political process of establishing deliberative procedures, and of using these to reach agreement over strategic decisions in which there are likely to be winners and losers. If we step back from the substantive strategies which are being pursued, then authorities may also be classified according to their ‘strategic capacity’, their capacity to identify, formulate and take strategic decisions at the corporate level. In order to develop and refine its strategic direction a council must therefore build up or strengthen its capacity for strategy formation — its strategic capacity. Authorities differ in the degree to which they possess this capacity, and in the form and scope of the structures and strategy processes that are involved.

Once this distinction has been drawn it is possible to consider the relationships between these two variables and to put forward certain hypotheses. We suggest, for example, that where a council is member-led it is unlikely to put itself through the strains of restructuring and establishing policy planning processes without having a fairly clear idea of the kind of council it wants to become. In these circumstances the desire to build up strategic capacity is likely to reflect a prior
commitment to a particular strategic direction, perhaps as indicated in the ruling group's election manifesto. On the other hand, where a council is officer-driven there is a greater likelihood that the strengthening of strategic capacity will be viewed technocratically, as an end in itself, and that the particular strategy which is chosen will be of less concern to those who are championing change.

It is quite possible for councils to alter their corporate strategy without altering the methods used in strategy formation. Indeed the ability to do so is one way of testing the degree to which a strategy process has been embedded within the organisation and accepted by all parties. However, it is sometimes difficult to dissociate the method of planning from the plans that are actually produced, and in these circumstances there will be a link between strategic direction and strategic capacity. A change in control, for instance, may lead a council not only to change its strategic direction but also to jettison the existing method by which strategic decisions are reached – policy planning processes, 'cabinet' committees, and so on – perhaps because this has become discredited by association with decisions that are now unpopular.

Our concern here is primarily with the development of strategic capacity, the conditions under which local authorities have been able to increase their capacity for strategic choice, rather than with the particulars of the different strategies which have been adopted. What are the conditions that must be met before strategic direction can be established? What are the steps by which local authorities can become more strategically orientated, more able to establish a concerted set of policy objectives at the corporate level? It can be hypothesised that the process of developing strategic capacity will involve some or all the following components:

• the articulation by leading members (perhaps via the ruling party manifesto) and/or chief officers of the project of raising strategic capacity, a 'strategy project' behind which political and managerial commitment can be organised;

• the introduction and embedding of policy planning and review, 'strategy processes' which, through a combination of formal and informal means, facilitate strategic choice by involving key power holders – members and officers – and enabling these to coalesce over key decisions (for example, the establishment of information systems to support decision-making processes);

• the creation of a conducive committee and organisational structure, a 'strategic form' in which power is sufficiently focused at the
corporate centre to facilitate agreement and to breakdown departmentalism, and incentives are dispersed at intermediate and operational levels to facilitate implementation;

- the entrenchment of cultural dispositions which are less subject to 'short-termism' or to professional divisions, and more conducive to inter-departmental, inter-professional planning and team-based working methods.

Councils have in recent years put as much or more effort into establishing the conditions for successful strategy formation as into the actual choice of which sort of strategy to pursue. Indeed there may be a circular – and virtuous – relationship between strategic choice and strategic capacity, whereby the development of the latter is itself stimulated by the initial experience of pursuing an outline strategy. It is likely that a provisional statement of strategy will be made near to the beginning of the development process, but it is unlikely that this will be fully accepted or owned by the organisation until further down the road. In the mean time there is plenty of scope for conflict to arise which can disrupt this circular relationship.

POLITICS AND THE TRAJECTORIES OF CHANGE

Councils do not stop working in order to make strategic choices or in order to raise their capacity for strategy. If they make these decisions at all then they make them in midstream, on the basis of existing commitments and practices. At any point in time:

- the organisation will already be serving a range of objectives and will also be operating according to certain overriding priorities or dispositions (some of which may be concretely expressed – for example, against cutting the budget for social services);
- it is also likely to be moving in a direction of change with respect to existing objectives, and in so far as there is an element of 'strategy' to these it is likely to be moving with respect to this strategy;
- it is likely that the strategic capacity of the council is held at its present level by a 'dynamic tension', a balance between integrative forces tending to raise this and fragmentary forces tending to reduce it;
- in councils which have developed a strategic capacity it is likely that the form of this capacity, the structures and processes involved, will be changing, either evolving gently through trial and error, or being uprooted and changed wholesale.
The champions of change are not starting with a clean slate, but are faced with altering the existing direction of change, moving the organisation from point A to point B along a trajectory in which both strategic capacity and strategic direction may be changed.

Organisations are dynamic settings, and there will be pressures within (and beyond) councils which facilitate the development of strategic capacity and pressures that impede or undermine these developments. In recent years there has come a point in the life of some councils where the forces that favour strategy have managed to gain the upper hand in the struggle for control. The process of change and the building of strategic capacity is therefore likely to be contested and political, and the outcome of this struggle will not necessarily turn out exactly as intended or foreseen by any of the participants.

In order to enhance our understanding of these changes it is important to examine them empirically, to identify the places from which the strategy project has emerged, the ways in which resistance has been overcome, the processes and forms of the resulting strategic capacity. It is also important to examine the trajectories of change – the starting and destination points, and the route between these in terms of both strategic capacity and strategic direction. Finally, we must investigate in particular the actual forms of strategy process which councils have adopted. Are these real or public relations exercises? Are they member- or officer-led? Is budget-setting part of this process or separate from it? What type and extent of structural change has been involved in gearing up for strategy formation?

CURRENT STRATEGIC CAPACITY OF AUTHORITIES

During the course of a recent INLOGOV/CURS seminar on strategic planning a start was made upon this research agenda by addressing some of these issues by means of a short questionnaire, which was completed by 23 of the delegates attending. The non-representative nature of the sample is of course acknowledged. However, as a rough indication of the reaction of a number of local authorities to the strategic challenge, and as an illustration of some of the points raised above, the results provide food for thought.

The questionnaire asked first whether authorities had discussed and responded to the LGMB report ‘Fitness for Purpose’ published in 1993, which identified the scope for strategic choice at the level of role and purpose, and which set out four ‘illustrative examples’ of strategic choices of this type – traditional direct service provision, commercialism, community governance and a neighbourhood approach.
Although few of the 23 respondents reported an explicit discussion of the LGMB 'Fitness for Purpose' agenda within their authorities, nearly half were able to recognise in their authorities' operations a strategic direction which reflected one of the illustrative examples, or, more commonly, a combination of two such elements. 'Community governance' featured in almost all the strategies identified, in three cases on its own, and in the remaining six in combination with other choices. These responses support other evidence\(^3\) that there is now a recognition amongst local authorities that there are real strategic choices to be faced at this fundamental level.

It was argued in the previous section that there were a number of external and internal pressures which had developed recently in such a way as to increase the likelihood of local authorities strengthening their strategic capacity. It was also argued that an important component in the building of strategic capacity is likely to be the creation of a policy planning process. An indication that attention is being given by responding authorities to strategy processes was provided by the responses to several other questions. All the authorities represented claimed to be operating some kind of policy planning process – two-thirds on a formal basis, and one-third more informally. Over half the authorities had introduced changes in their approach to policy planning and corporate strategy over the last five years and two-thirds were intending to introduce a new approach (or to modify their current approach) over the next year.

These responses show that strategic capacity is subject to ongoing development amongst the authorities which responded, that policy planning processes are seen by them as an important part of this capacity, and reveal a response to the strategic challenge which embraces all types of authority and forms of political control. The plans of councils for introducing or strengthening a strategy process revealed several common concerns – starting the process earlier in the municipal year; generating more political involvement; building links between formal and informal policy planning processes; moving from a departmental-based approach to a centrally initiated one; and (in one case) a move to a greater public consultation.

A policy planning process can of course reflect a wide variety of different realities, ranging from a process which has a major impact on the council’s decision making to one which has a predominantly ‘public relations’ role. Two-thirds of the authorities had produced a corporate strategy document of one kind or another. There was (as would be expected) a direct correlation here between a formal approach to policy planning and the production of a corporate strategy document. All those
adoption of a formal approach produced such a document; very few of those adopting an informal approach did so. Informal approaches were not reported as having ‘a major impact on the activities of the council’, and constituted at most a promotional document. On the other hand, of those authorities with a formal policy planning approach and a corporate strategy document, almost half claimed that it had a major impact on the council’s activities. One authority, however, argued interestingly that ‘process is more important than end product’, echoing one of our arguments in the previous section.

It was argued above that political commitment was likely to be a necessary condition for an effective strategic approach. This hypothesis was explored by means of a question which asked whether the policy planning process (which all authorities claimed to be operating in one form or another) was member-led, officer-led but with significant member involvement, or officer-led without significant member involvement. In the first case, a direct impact upon council activities and budgetary choices would be anticipated; in the third case such impacts would arguably be more unlikely. The majority of respondents (15) argued that the process was ‘officer-led with significant member involvement’. In a few the process was claimed to be member-led, and in a few no significant member involvement was reported:

1. In the authorities where the process was member-led a ‘major impact’ on council activities was identified, and a significant impact on reallocation of resources in budget setting was reported.
2. Where there was no significant member involvement, the strategy was in each case identified as a promotional or informational document, and only exceptionally was there more than a marginal impact on the outcomes of budget setting.
3. Processes which were officer-led but with significant member involvement had a more varied set of outcomes, with a promotional/informational document being twice as prevalent as one that had ‘a major impact on council decision’, and a roughly equal balance between ‘significant’ and ‘limited’ impact on the reallocation of resources in budget setting (via the ‘spelling out of priorities’).

Although by no means conclusive, these responses do illustrate the importance of political commitment in the building up of strategic capacity. One of the most important tests of the effectiveness of a corporate strategy is the extent to which it impacts upon budgetary decisions. Half the authorities represented stated that priorities spelled out during policy planning had led to reallocation of resources in budget setting.
One of the likely conditions for a strategic approach - although by no means an essential condition - is the re-examination of the council's organisational structure, at both departmental and committee levels, to assess whether it is appropriate to the facilitation of strategic management. Three-quarters of the respondents had experienced a reorganisation of this nature in recent years, although whether the facilitation of strategic management was always the prime motivator (as opposed to 'saving money' or 'responding to CCT') is perhaps doubtful. On the member side, the main changes referred to were the reduction in the number of committees, the separation out of policy and operational issues within the formal structure; and the redefinition of the role of the Policy and Resources Committee. Far more respondents referred to departmental reorganisations, typically involving a reduction in the number of chief officers and departments, a delegation of more responsibility to service heads (or business units) and, in a few cases, the explicit strengthening of the strategic centre (a stronger chief executive's office; the establishment of a central strategy unit; a strategic management team).

Two questions were included to elicit views on the likely impact of the introduction of white-collar Compulsory Competitive Tendering; first the impact on the strategic approach of the council, and secondly the impact on the level of interest of elected members in strategic issues. We wanted to test responses to the idea that white-collar CCT, by imposing a purchaser/provider split in traditional central functions such as personnel, accounting and IT, would emphasise the strategic role of the centre and of members in the light of the implied reduction in the traditional central service role. Responses, however, were mixed and inconclusive. About a third of the respondents felt that white-collar CCT would strengthen the strategic approach of the council, another third felt that it would not and the remaining third did not know. Half the respondents felt CCT would strengthen the level of interest of elected members in strategic issues and half felt it would weaken this interest. The wider implications of white-collar CCT have not as yet, it appears, been thought through.

Perhaps the single most important finding is the sense of a common acceptance of the need for a strategic approach which emerges from the questionnaires. Authorities not previously involved in strategy building were planning to become so. Those already operating strategic planning processes were planning to develop or modify current practices. During the seminar discussion, as well as in the questionnaire responses, the need for a corporate strategic planning process was widely accepted, although the form of this was subject to considerable variation between
authorities. Both of these features – the acceptance of the strategic challenge, and the variety in the response – seems to us encouraging trends, which signal both the determination of these local authorities to act governmentally, and their individual uniqueness.

CONCLUSIONS

This article has considered the steps which councils are taking in order to meet the conditions necessary to achieve a strategic approach. It is important in discussing corporate strategy in local government to distinguish between the strategies which are adopted (‘strategic direction’), the planning processes and structural forms by which they are formulated, adopted and reviewed (‘strategic capacity’), and the developmental processes by which the organisation has built up its capacity to identify and take strategic decisions and to set strategic direction. If we focus exclusively upon substantive strategies and their implementation then we may overlook the gestation period for strategies and the political or managerial struggles which are involved in building strategic capacity. We may therefore give the impression that strategies and planning processes can be successfully introduced at a stroke once leading members or managers have seen the light. In fact, to do so presupposes that conditions have been created and the capacity built to forge political and managerial agreement over key decisions and to hold this in place for the duration of these decisions.

Our preliminary survey of a (non-representative) group of local authorities has revealed the considerable attention which these are currently giving to setting strategic direction and to building strategic capacity. Most of these councils were operating a formal policy planning process, and had produced a corporate strategy of one sort or another. Most of the councils had adjusted their approach to policy planning in recent years, and most were planning to do so again in the near future. It was found that political support was important to the development and impact of strategic capacity and a strategic orientation. Half of the authorities indicated that strategic priorities were having an impact upon budget setting. The overall impression is that the councils were striving, for a variety of reasons and by a variety of means, to enhance their capacity for strategic choice and control. We suggest that these findings indicate circumstances and raise issues within local government that merit closer and more formal examination.
REFERENCES