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# Adaptive Strategy in Government

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## AT A GLANCE

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Many concepts of strategy have been imported from business into government, but few have taken hold. As a result, governments have lost confidence in strategy and civil servants have grown skeptical of its value. The recent crises in Europe remind us that governments need to move decisively to address complex problems and shape a better future. In other words, they need a strategy.

### **DON'T PUT THE CART BEFORE THE HORSE**

Instead of determining goals, governments increasingly define themselves by the method they follow. Governments have become flexible about *what* they should do but rigid about *how* to do it. Good strategy in government involves doing the opposite: being clear about goals but flexible about how to deliver them.

### **KEEP LEARNING, KEEP ADAPTING**

Rather than abandon strategy altogether, governments should learn from the failure of previous approaches. We advocate a less precise but more realistic approach to strategy—one that serves to orient government rather than control everything that its departments do. An adaptive approach offers clarity about the goals to follow, as well as flexibility regarding the methods to achieve them. What it loses in prediction, it gains in adaptation.

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*A spectre is haunting Europe—the spectre of communism. All the powers of old Europe have entered into a holy alliance to exorcise this spectre: Pope and Tsar, Metternich and Guizot, French Radicals and German police-spies.*

—Karl Marx, *The Communist Manifesto*, 1848

**A** NEW SPECTER IS HAUNTING Europe and other parts of the West—the specter of absolute decline. Faced with that threat, an alliance of governments is primarily addressing its symptoms by cutting spending, regulating banks, revising treaties, and reassuring markets. Harder to fix are the underlying causes of the crisis, whether these are understood to be stagnant productivity, rising welfare costs, superannuated infrastructure, or uncompetitive markets.

But if all we do is address the symptoms, the patient won't recover. Governments' first priority must be to stabilize the current situation. They then need to move decisively to address the original causes of the crisis and to shape a better future. In other words, they need a strategy. Yet many governments have lost confidence in strategy, resorting instead to what Paul Cornish calls “a cleverer version of muddling through.”<sup>1</sup> Politicians fear that their ability to plan is no match for the complexity and uncertainty of the modern world. Meanwhile, civil servants, jaded from decades of being asked to apply the tenets of business strategy to policy, believe their skepticism has been vindicated.

Rather than abandon strategy altogether, politicians and civil servants need to learn from these failures and frustrations. Around the world, public-sector innovators are doing just that, evolving a style of strategy that combines clear goals with flexible methods. This “adaptive strategy” differs from both the classical strategies of twentieth-century business and the “muddling through” that has replaced them in much of government today.<sup>2</sup> Although it means accepting less predictive ability and control than has been expected of traditional strategy, adaptive strategy rescues government's ability to set a direction without reintroducing the rigidities of old-fashioned planning.

## How Politicians Became Skeptical About Strategy

As Geoff Mulgan has pointed out, planners dominated the twentieth century—Truman and Marshall, Keynes and Churchill, Monnet and Schuman, not to mention the central planners of the Communist Bloc.<sup>3</sup> Following the Second World War, political leaders eagerly launched plans for everything from economic demand to peace and war—from agriculture to coal and steel.

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Governments no longer see their job as choosing a direction but instead as fostering systems in which the direction will emerge from the interaction of citizens.

But these leaders didn't plan for the failure of their great schemes. After the oil crisis of 1973, the idea that political leaders could control the global economy lost credibility. Nor did much faith remain in the planning of public services. By the 1970s, despite three decades of investment in public services, many social problems seemed as intractable as ever. In the U.K., for example, literacy rates hadn't improved since the early 1950s.<sup>4</sup>

The decades since the 1970s are often characterized as a period when the market achieved ascendancy over the state. But they are perhaps better understood as marking the replacement of planning with flexibility. Labor and product markets were freed up. So, to an extent, were public services—whether by giving more choice to users or by introducing competition between suppliers. Picking winners went out of fashion, in science as well as in industry. Governments no longer saw their job as choosing a direction but instead as fostering systems in which the direction would emerge from the interaction of citizens.

Even when planning was in the ascendant, skeptics like Hayek were warning of its limitations, arguing that “human reason can neither predict nor deliberately shape its own future. Its advances consist in finding out where it has been wrong.”<sup>5</sup> In a modern take on this argument, John Kay believes that governments should abandon the search for an objective solution or a direct route toward it. He calls this principle “obliquity,” using the catch phrase, “Adaptation is smarter than you are.”<sup>6</sup>

This philosophical position has taken on ballast from a related intellectual trend: systems thinking. From economics to public services, thinkers and practitioners have become frustrated by the failure of their models to predict events or of their interventions to work as planned. Systems thinkers have a lucid explanation for these failures: policy has been based on the wrong explanatory model.<sup>7</sup> For example, drawing its inspiration from physics, traditional economics assumes that markets will tend to equilibrium. However, that model leaves out too much—especially the exploding number of consumers, producers, and products, the feedback loops among them, and the resulting complexity and uncertainty. A better model would recognize that the system is never in equilibrium, or necessarily even tending toward it.

Systems thinkers argue that societies and economies are best understood as *complex adaptive systems* in which the problem to be solved is often not known in advance, and the solution is hard to impose, because of the potential reactions of the wide variety of actors affected. Complex adaptive systems can't be controlled—they evolve.

Some politicians (though not most systems thinkers) have taken this evolutionary metaphor a step further, arguing that government's primary role is to encourage adaptation. They believe that the world is too complex and uncertain for detailed central planning. Echoing Hayek, they say that governments can neither predict nor deliberately shape their country's future. The quip “Visions are what mad people have” summarizes this view pithily. However, as we will argue later, this is an example of finding a half-truth and exaggerating it into a mistake. Societies are identical neither to machines, which can be engineered, nor to biological systems,

which evolve by themselves. Instead, they combine aspects of both and hence need a mixture of direction and adaptation.

## How Civil Servants Became Disillusioned with Strategy

Over the last few decades, many concepts of strategy have been imported from business into government, but few have taken hold. As a result, civil servants have become skeptical of strategy, with its vision statements, whole-of-government plans, and pampered strategy units. We have spoken with a wide range of civil servants and uncovered a common set of concerns about strategy:

- *Unrealistic or Open-Ended Visions.* Government vision statements tend to be far too broad and unchallenging, often resorting to stock phrases like “Our goal is to be the best-educated workforce in the world” or “We aim to be the best place to do business in the region.” They are often ignored and contravene the first purpose of a strategy, which is to help an organization decide what *not* to do, as well as what *to* do.
- *Overly Detailed and Prescriptive Plans.* In what may at first appear a paradoxical move, these woolly visions are followed by overly detailed whole-of-government plans that try to capture everything that government departments and agencies will do to realize the vision. On reflection, we can see that this is only natural. If the vision doesn’t help those departments and agencies decide what should and shouldn’t be done, then the center will feel the need to tell them what to do. But the level of detail provided usually renders the plan out of date before it has even been published, leaving civil servants who are meant to follow it to choose between the demotivating effects of implementing a plan in which they don’t believe and the career-threatening effects of ignoring it.
- *Isolated or Overweening Strategy Units.* Although many strategy units have done exceptional work, they often encounter resistance from the rest of the organization. They face a Catch-22. If they work on issues that government departments regard as their bailiwick, they are accused of interfering. If they work on other priorities, they are accused of irrelevance. This makes it easy for strategy units to be resented or marginalized.
- *Strategy as a Sideshow to Spending Reviews.* Even where strategy units continue to exist, they are often merely tolerated, while the real action is thought to be elsewhere, especially in finance ministries and spending reviews. Ministers and civil servants rate themselves and one another on their ability to extract resources for their departments; if the strategy process is marginal to what gets funded, it will be seen as marginal by the machine.

As a result of these experiences, civil servants are often wary of even the language of strategy. Lord Peter Hennessy, who is so often the elegant loudspeaker for the unexpressed conventional wisdom of the British civil service, illustrated this attitude perfectly when speaking to the Public Administration Select Committee: “The contagion of the language of the management consultant into the business of government, I’m sure, appalls you as much as it does me. I think if the

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word ‘vision’ comes up, we should have the equivalent of a red buzzer to squeeze it out.”<sup>8</sup>

The problem may lie less with semantics than with how the concept of strategy has been applied in government. In the same intervention, Hennessy provided a succinct definition of strategy: “the reconciliation of intentions with possibilities.” Unfortunately, widespread skepticism about strategy has diminished the ability of governments to undertake this type of reconciliation.

## How Governments Put the Cart Before the Horse

What would happen if a country stopped trying to reconcile intentions with possibilities? Maybe it would commit to a range of long-term goals that were mutually unaffordable. In the U.K., that is exactly what has happened. The British government intends to eliminate the deficit by 2017. But even if it succeeds, Britain faces a medium-term deficit because of the ambitions that all the main parties have signed on to.

How do we define those ambitions? We have taken a minimalist approach, costing only the goals that are already specified in legislation and for which all three main parties voted. We then added in the higher of the health cost scenarios predicted by the U.K. Office for Budget Responsibility. (See the exhibit.) Under these assumptions, by 2030, costs would outstrip revenues by a sum equivalent to 6 percent of GDP. If a government wanted to improve public services and defense, the gap would quickly rise to 10 percent.

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Good strategy in government involves being clear about goals but flexible about how to deliver them.

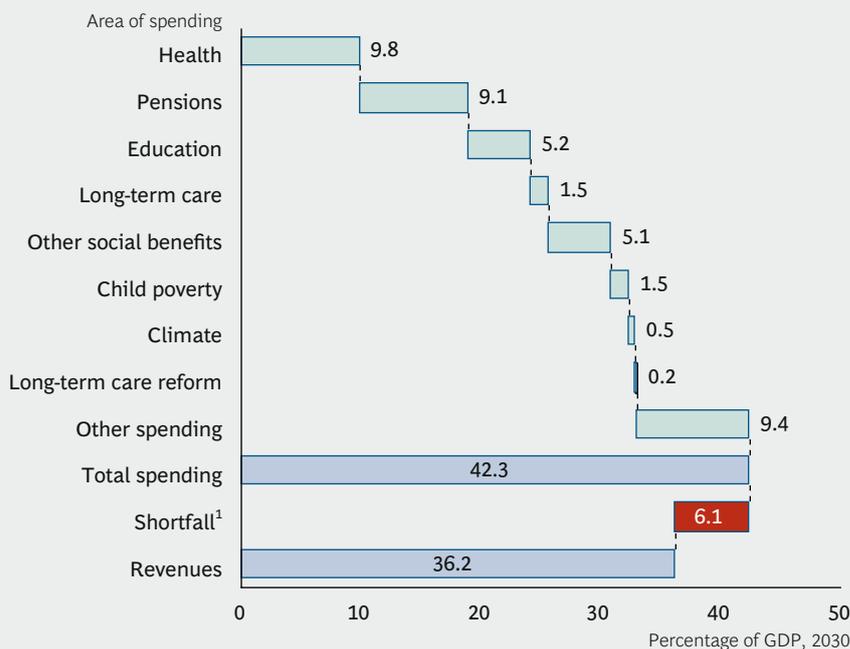
Of course, a future government could choose to increase taxes or drop some of its goals. The point is that intentions are not being reconciled with possibilities, because governments have lost confidence in strategy. Instead of determining goals, politicians now determine methods. With the failure of twentieth-century planning, democratic governments have become reluctant to set out long-term visions for their countries. Instead, they define themselves by the method they follow—citizen-choice versus top-down reform, targets versus localism, public versus private. Political orientation provides governments with a shorthand for deciding how to proceed by asking, What’s the New Labour thing to do? or What’s the Big Society approach?

Governments have become flexible about *what* they should do but rigid about how it should be done. Yet good strategy in government involves doing the opposite: being clear about goals but flexible about how to deliver them. Governments are putting the cart of method before the horse of strategy.

## Why Strategy Remains Important, Even in a Complex World

Some governments have found a way of using strategy despite complexity. Their approach can best be understood by returning to Hayek’s formulation that “human reason can neither predict nor deliberately shape its own future.” These governments agree with Hayek that the future cannot be predicted, but they disagree that it cannot be deliberately shaped. Singapore’s government, and in particular its Centre for Strategic Futures, has perhaps gone furthest in the use of strategic-

## The U.K.'s Long-Term Goals Threaten to Create a Budget Shortfall



Source: BCG analysis.

<sup>1</sup>Calculation of the 6 percent deficit based on U.K. Office for Budget Responsibility (OBR), "Fiscal Sustainability Report," July 2011, tables 3.4 and 3.5, taking into account s.27 and 35 (demographics); Howard Glennerster, "Financing the United Kingdom's Welfare States," March 2010, table 1 (child poverty, climate change); Dilnot Commission, *Fairer Care Funding*, July 2011, figure 12 (long-term care); and Committee on Climate Change, *Building a Low-Carbon Economy*, December 2008, s.1(ii), assuming the economic cost would be shared between the public and private sectors (emissions). Calculation of the 10 percent deficit based on OECD data (<http://stats.oecd.org>) on 2005–2009 U.K. spending and on spending levels for countries with best-in-class social protections (Sweden), health (France), education (Finland), and defense (U.S.), with adjustments for PPP and population (except for defense) and set against OBR revenue projections plus U.K. foreign-aid and emissions-reduction commitments.

planning techniques, dating back to the 1980s.<sup>9</sup> Its conclusion, that foresight exercises and scenario planning can't predict the future but can prepare you for it, will be familiar to companies that have used these techniques.

Drawing on The Boston Consulting Group's global experience with these approaches in both the private and public sectors, the rest of this paper suggests a path to applying adaptive strategy in government.<sup>10</sup> We will revisit the key steps of strategic planning and attempt to redesign them to address the frustrations of those who have tried to use them in the public sector.

Let's start with vision. At one level, this word is just a way to indicate a time frame that governments typically leave out: the eight- to ten-year horizon. Whether we call it a vision or an intention, what matters is identifying which goals to pursue and which ones to abandon or downgrade. Adaptation in government is impossible unless some high-level direction has been set; without it, the organization will have no way to prioritize spending or time and no criteria for evaluating success or failure. The vision must pass this test: it must allow a civil servant to know which areas to prioritize.

Having set their intentions, governments need to prepare for uncertainty. Scenario planning, war-gaming, and future scanning are well-established techniques to help with this. But at one level, all that is needed is to bring to the surface the risks and opportunities that both insiders and those outside central government can identify. Governments can then prepare for uncertainty by implementing different types of policies:

- *No-Regrets Initiatives*: policies that will be attractive under a wide range of scenarios. An example in the U.S. might be supporting higher education.
- *Hedges Against Key Risks*: policies to minimize the downside of potentially severe risks. For example, in the recent past, these would have included hedging against the risk of a financial crisis.
- *Boundary or Handrail Issues*: assets that the government will protect or approaches that it will not follow, even under acute short-term pressure. For example, in Britain, where the economy contains a high proportion of legal and business services, these might include maintaining the highest standards of governance and judicial process.
- *Core Bets*: policies that will make the most difference in helping a country achieve its vision. Examples include prioritizing public services over military spending or the decision by the U.S. to open diplomatic relations with China in the 1970s.

Having established a direction, governments need to reconcile it with the world of the possible. They need to match spending to goals. Typically, spending reviews only deliver incremental change, with finance ministries finding savings and then reallocating them among new priorities. A better approach would be to turn this process on its head: commit to the spending necessary to implement the strategy and cut the remaining budgets accordingly. In other words, the spending review would allocate funding to the core bets, no-regrets initiatives, and hedges against risks—maybe by carrying out a fundamental strategy review before each spending review. Governments could also consider publishing an independent costing of their long-term goals, as the New Zealand Treasury does before elections or as the Office for Budget Responsibility has started doing periodically in the U.K.<sup>11</sup>

What is being advocated here is a less precise but more realistic approach to strategy—one that serves to orient the government rather than control everything that its departments do. What it loses in prediction, it gains in adaptation.

## How Governments Can Continue to Adapt

Having set their direction, governments need to create adaptive systems for policy and delivery.

In terms of policy, the most important thing a government can do is learn. Governments and opposition parties find it hard to learn because they find it much easier to blame. In one of the most interesting discussions of how systems theory applies

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Having established a direction, governments need to commit to the spending necessary to implement the strategy and cut the remaining budgets accordingly.

to public policy, Jake Chapman writes, “While failure is unacceptable, learning is impossible, with the paradoxical result that failures will continue.” To avoid this vicious circle, governments need to “... take a range of actions, evaluate the results and subsequently learn what works best. This evolutionary approach to learning requires both innovation (variety of actions) and effective feedback on the results of previous actions (a selection process).”<sup>12</sup> Biological adaptation can be schematized as variation plus selection plus amplification. But that is insufficient for policy. Adaptive policy adds a fourth stage of “modulation,” where intent is applied to shape and fine-tune the evolutionary process.

Since governments are not naturally learning organizations, they need to create institutions that force them to modulate. The U.K.’s Delivery Unit succeeded in making sure that departments learned by measuring how they were performing, making comparisons between good and bad performers, and supporting poor performers or forcing them to rise to the level of the rest. In Australia, the Victoria Police, the primary law-enforcement agency for that state, reorganized itself to improve its ability to learn about and react to changing crime patterns.<sup>13</sup>

In terms of delivery, adaptation comes from designing systems that are self-reforming. In many cases, this will be done by giving power to users and professionals so that they can respond to emerging needs with agility, rather than waiting for a policy change from central bureaucracies. However, systems theory recognizes that in public policy there is an “acute tension” between flexibility and efficiency.<sup>14</sup> Where efficiency is the priority, a centrally planned system may work best, whereas flexibility thrives where power is devolved. This challenge of matching the style of strategy to the environment is common to both government and business. As BCG has recently argued, a classical style is appropriate for predictable, malleable markets, but other styles should be investigated where different circumstances prevail.<sup>15</sup> There are two key priorities:

- Governments need to be flexible about which delivery model to use.
- Whichever approach they use, they need to make it as adaptive as possible.

Top-down policies are by definition less adaptive. That is the price paid for the efficiency of an imposed solution, which only raises the onus on the policymaker to create institutions, feedback loops, and a culture that will encourage continued learning.

## How Democracies Can Be Strategic

A final frequent objection to strategy is that it is easier to apply when governments are not bound by elections. However, politicians or civil servants who argue that an inability to plan for the long term is the price of elections are hiding behind a poor excuse. Democracies adapt, and elections themselves are a good way of replacing poor management and discarding bad ideas.

There are at least three ways for successful politicians to use politics to make lasting changes.

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Democratic governments can be strategic—they just need to learn to make politics work for them, rather than use it as an excuse.

- *Conviction.* An example is the Thatcher government’s championing of privatization, or Canada’s Prime Minister Jean Chrétien slashing public spending to cut the deficit between 1993 and 1996. If the new approach is successful, then a change of government doesn’t necessarily result in a change of policy.
- *Consensus.* An example is the Danish Globalisation Council, which consulted across all sections of society to deliver a broad strategy to equip Denmark for globalization.
- *Independence.* An example is giving central banks, such as the U.S. Federal Reserve, control over monetary policy as a way of creating medium-term credibility and lower long-term interest rates.

When to apply these approaches is a difficult question. There is no straightforward answer, but the following guidelines offer some help:

- It is easier to use conviction politics when the government has a strong leader whose direction cannot be vetoed by party or other interests. It also helps if results can be demonstrated before the next election, so that the experiment is not halted before it reaches fruition.
- Consensus is most useful when the issue is one that the parties can agree not to use as a wedge, and where data analysis can help narrow the set of strategic options from which politicians must choose.
- Conferring independence is useful when politicians have a conflict of interest (for example, between the economic and electoral cycles) or when they want to resist outside pressure (for example, in decisions over media ownership or which medicines should be offered to patients).

Democratic governments can be strategic—they just need to learn to make politics work for them, rather than use it as an excuse.

## Conclusion: How Not to Repeat the Crisis

If this paper’s argument has been successful, a previously skeptical civil servant might be prepared to look again at the tools of strategy. However, he or she might still doubt that strategy will prevent a future crisis. This isn’t the place to analyze the causes of the current crisis. However, our colleagues David Rhodes and Daniel Stelter have done exactly that in BCG’s Collateral Damage series, where they argue: “A deeper look at the facts reveals that governments have been indecisive and playing for time—kicking the can down the road, rather than addressing the root causes of the crisis.”<sup>16</sup> They suggest a range of solutions, all of which depend on governments being strategic—setting a clear direction instead of kicking the can down the road.

In government, crisis is often the mother of strategy—from the New Deal arising out of the 1929 crash to America’s resurgence after the 1973 oil crisis. By being strategic, governments can capture the opportunity of our generation’s crisis. They

will need to accept a less ambitious idea of strategy—or at least one that is less predictive and prescriptive. But in return they can hope for the following benefits:

- A clear intention for their country over an eight- to ten-year horizon
- An organization that knows what to prioritize
- An understanding of the key risks
- A set of core drivers, hedges against risk, and no-regrets initiatives
- Boundary or handrail approaches that won't be taken under short-term pressure
- A plan for medium-term fiscal sustainability
- A learning organization
- A flexible approach to choosing policy models

Adaptive strategy can allow governments to set a direction without losing agility. The alternative, to continue suffering from root causes that remain unchecked, could result in a period of absolute decline unheard of in peacetime. That is a specter that is worth deliberately shaping a future to avoid.

Strategists in government, unite, you have nothing to lose but your chains!

#### NOTES

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