Strategy Is Dead, Long Live Strategy

New Approaches for Government
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We are living in an age of accelerating change. The old ways are rapidly becoming obsolete, and new opportunities are opening up. It is clear that the game is changing. At The Boston Consulting Group, we are optimistic: we think that the fundamental drivers of growth are stronger than they have ever been before. But to capitalize on this trend, leaders need to be proactive, to challenge the status quo, to make bold moves— they need to change the game, too. The decisions they make now, and over the next ten years, will have an extraordinary and enduring impact on their own fortunes as well as on those of their organizations, the global economy, and society at large. To help leaders and to mark our fiftieth anniversary, BCG is pulling together the best ideas, insights, and ways to win—to own the future. This publication is part of that endeavor.
Is government strategy dead? Far from it. But governments need to vary their style of strategy according to the challenges they face.

**Defining the Strategic Context**
When designing a strategy, governments must be clear about their strategic context, in particular their ability to predict, shape, and survive the environment, both globally and domestically.

**Choosing a Strategic Style**
Different contexts give rise to five distinct “styles” of strategy. These range from a classical style, which is suited to stable, predictable contexts, to an adaptive style, which is appropriate for situations in which governments will benefit from innovation and experimentation during turbulent times.

**Common Mistakes**
Mistakes tend to occur when governments try to apply the same style to every problem, when they apply styles in contradictory ways, or when they are unable to operate ambidextrously, deploying different styles in different parts of the same organization.
“Marshall is the greatest man of World War Two,” President Truman confided to his diary upon appointing George Marshall secretary of state in January 1947. Having won the war, the United States faced losing the peace. Marshall inherited a precarious Europe: its economy was struggling, the Soviets had become rivals rather than allies, and Greece and Turkey were flirting with Communism.

The Marshall Plan, his solution for rebuilding Europe and keeping Communism in check, was genuinely visionary. It fed Western Europe and released investment to kickstart growth. Over the next two years, Marshall and Ernest Bevin, Britain’s foreign secretary, created NATO. By 1949, the West had an economic and a military plan. Turkey and Greece turned away from Communism, and the major powers settled in for the Cold War.

But as the century wore on—and as we argued in a recent paper, “Adaptive Strategy in Government” (BCG article, May 2012)—governments lost faith in planning. Not all plans were up to Marshall’s standard, and a blanket skepticism about strategy replaced its unquestioning application. In less predictable times, instead of drafting master plans, governments favored devolving power so that individuals and organizations could choose their own path.

We believe they gave up too soon. Governments should not universally reject or embrace strategy, but rather choose a strategy style according to their context. In other words, governments need to be strategic about how they plan and strategize.

Defining the Strategic Context
Context is everything, and governments should begin the process of defining their strategy by first analyzing their context along three dimensions:

- **Predictability**—the extent to which the future can be forecast, which depends on the degree of complexity and the rate and foreseeability of change

- **Malleability**—the extent to which a government’s actions can change or shape the environment

- **Harshness**—the severity of the current environment, which can drive the need for emergency short-term actions to override longer-term strategic intent

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If Marshall and his team had done this analysis, what would they have concluded?

First, although they couldn’t predict the future in precise detail, they could predict that the Soviet Union was becoming their main strategic threat. They knew one big thing.

Second, they knew that the United States was powerful enough to shape the strategic environment. The consequences of America’s not acting would be stark: economic decline in Europe, popular unrest, and a growing Soviet influence. On the upside, Marshall could be confident that the U.S. had the economic and military strength to guarantee the recovery and security of Western Europe.

During the Cold War, the strategic environment was fundamentally predictable for most countries but malleable by only the two superpowers. The nonaligned bloc tried to develop independent influence but had little impact on the global situation: most countries decided to join either the U.S. or the Russian sphere of influence.

Today’s world is much more turbulent than the one that Marshall sought to control. After the fall of the Berlin Wall, many foresaw a unipolar world that only the U.S.—as the last superpower standing—could shape. But instead a multipolar world emerged. The rise of new regional powers, such as India, Brazil, and China, as well as countries with independent power like the Gulf States—and even rogue states with nuclear weapons—means that the ability to shape our collective destiny is no longer restricted to one or two major powers. Governments also have to reckon with business: if Wal-Mart were a country, its GDP would be the twenty-fifth largest in the world, surpassing that of 157 smaller countries, according to Business Insider. The same time, technology is giving greater power to individuals, and globalization is causing the fate of countries to be increasingly intertwined. Together, these factors create a more complex world that is changing faster and less predictably than ever before.

The third dimension—harshness—is a dominant feature of the current context for many countries. When harshness comes into play, it threatens a nation’s ability to finance and even to govern itself by eroding its credibility and resources. Suddenly everything is about survival. The priority is to regain control by cutting deficits, calming markets, or reestablishing authority. Take the Eurozone crisis. Countries caught up in these events are less concerned about what the future holds than about getting their heads above water and maintaining some semblance of order.

Choosing a Style of Strategy

The first two dimensions—predictability and malleability—give rise to four very distinct strategic styles: visionary, shaping, adaptive, and classical. The degree of harshness defines a fifth strategic style: survival. These five different styles are effective in different contexts and require profoundly different organizational approaches. Let’s illustrate each one by looking at the decisions that a national leader might face.

After World War II, George Marshall believed he could both predict and shape the European context. He therefore chose a visionary style, setting clear goals and
methods. As the world became less predictable and malleable, this style became less popular. However, it hasn’t been completely abandoned. A modern example would be the response to global poverty at the 2005 G8 summit in Gleneagles, Scotland. The world’s largest economies believed they could both predict and shape—in other words, they believed they knew how to abolish extreme poverty and had the financial resources to do so. Arguably they were right: despite the global recession, remarkable progress has been made toward reducing extreme poverty.

When governments have power but the environment is harder to predict, they adopt a shaping style. Deng Xiaoping illustrated this style after his recall from political exile in 1973. Deng reshaped China’s strategic environment by reaching out to the U.S. and reforming the Chinese economy. However, he wasn’t sure exactly how his approach would play out. He compared it to “crossing a river by groping for stones”: the goal was clear but the path flexible.

An adaptive style is more appropriate for a country facing a turbulent environment that it cannot shape. Rather than put all its eggs in one policy basket, it can choose to encourage flexibility, agility, and innovation. This is one way of looking at the approach that the Scandinavian countries took after World War II. Much of their subsequent success has come from innovations both in economic models (from Nokia to Spotify) and in policies, such as Norway’s diplomatic influence through aid and “peace diplomacy.”

A country that believes it can’t shape its environment but can predict how to position itself for success should follow a classical style. Countries at the early stage of development are a good example of this approach. While not powerful enough to influence their diplomatic or economic context, they may have a good idea of how to take the first steps up the ladder of development. Singapore, during its first phase of growth, arguably adopted a classical style, identifying where it might have a comparative advantage.
advantage and then bringing public and private resources to bear in those areas. Now that Singapore has become a developed economy in a fast-evolving regional context, its government finds it harder to predict the next steps necessary for growth and must experiment with a wider range of policies. As Peter Ho, the former head of the country’s civil service and a world expert on planning in government said, “Civil servants are often much more comfortable in ordered environments; our challenge was to start thinking about how to govern in more unordered, unpredictable circumstances.” Singapore needed and now cultivates an adaptive style.

The Domestic Context
So far, we’ve looked at the global context in which a country develops its overall strategy. But the same approach can be applied to domestic strategy as well. The main difference is that, on the domestic front, a government can more easily influence what its citizens do, either directly by passing laws or indirectly by raising taxes. When it comes to considering domestic policy, the important question for governments is not whether they can set both the goals and the methods of policy but whether they should and—if so—how.

Often they will want to do both. The Turner Commission on pensions policy in the U.K., for example, wanted to set both the goals and the methods of policy. Its overriding goal was to avoid future generations of poor pensioners, and it was fairly prescriptive about how to achieve that goal: raising the retirement age, auto-enrolling employees in company pension plans, requiring employers to contribute, linking state pensions to earnings. The Institute for Government has identified this as a policy that succeeded because it was based on evidence and had a strong political owner and a dedicated team of experts. We would classify this as a successful example of a visionary style that governments, at their best, are able to deploy.

Most public servants don’t choose a ministry’s goals, but they may have a good understanding of what does and doesn’t work at the frontline when it comes to applying policy. This could be the case in an employment agency like Jobcentre Plus in the U.K. or Pôle d’Emploi in France. Here, encouraging 1,000 flowers to bloom would be wasteful, since 999 suboptimal approaches would likely result. Better to determine what works by analyzing the evidence (including input from the frontline) and then standardizing the approach. In other words, better to follow a classical style.

Organization follows style. Since a classical style requires information and control at the center, it works best in a vertically integrated organization with strong leadership. It is likely to include the following features:

- An annual planning process with clear goals and performance incentives
- Rigorous performance management of individuals and units
- A cohesive culture focused on results
- Standardized training and operating procedures for frontline staff
• Limited discretion at the frontline

• An effective set of analysts at the center

In public services where the center doesn’t have as much control and access to information, a shaping style works best. In these cases, the center sets the goals, builds a self-reforming system, and creates the right incentives for the frontline to work out the best solution. This could involve the introduction of market mechanisms with a range of providers, including those from the private and not-for-profit sectors, and greater choice for consumers. Again, organization follows style. Now the center will have a commissioning role, with much less emphasis on command and control and greater support for decentralized innovation.

Sometimes, to get what they want, government ministries or departments don’t even need to control the goals. Indeed, sometimes controlling the goals is counterproductive. In health, for example, surgeons and other health-care professionals often resist targets and methods set by civil servants. The Swedish health ministry pioneered a solution to this problem by creating health registries that collect detailed information about the outcomes and costs of surgeries. The registries allow surgeons to compare their results with those of peers, and this has contributed to decreased costs and a rise in survival rates in Sweden, even in the absence of dictated goals. We would classify this as an adaptive approach.

Adaptive approaches can go even further, especially in industries that are subject to rapid change, such as the technology sector. In such cases, and as we argued in a recent paper (Adapt and Adopt: Government’s Role in Internet Policy, BCG Focus, October 2012), governments can turn the idea of a fixed bureaucracy on its head. They can bring together policy teams—often led by outsiders—for a limited duration and give them the freedom to spend their budget without the normal authorization processes. They can also experiment with competing policy teams. Rather than looking for fixed, evidence-based policies, governments can encourage rough, rapid policymaking, while being prepared to change tack in light of experience. The task of policymakers can be as much about spreading new ideas and creating networks of professionals as about developing law and spending money.

At the other end of the spectrum, governments in survival mode must have a strong center that can make decisions and then make them stick. In contemporary cases of deficit reduction, pragmatic decisions are needed to stanch the bleeding. These can be made more easily by governments with strong leaders, a clear mandate for cost reduction, and commitment to the task. However, as we argued recently, pragmatic cost reduction rarely delivers permanent reductions in spending; eventually, governments need to take a more strategic approach, again matching the style to the challenge that they face.5

Three Common Mistakes
Differentiating styles of strategy and identifying the right one for the context allows governments to avoid three common mistakes.
The first mistake is applying the same style of strategy to every problem. A politician or civil service manager who is ideologically attracted to adaptive solutions, for example, would do well to remember that some policy problems are always going to require a more classical style—a government will not be able to raise much revenue by freeing up the goals and methods of tax policy. And while the first step is to analyze the context, analysis doesn’t always bring consensus. In education, for example, some will favor a visionary style, while others will want an adaptive one. The key is to come to a final decision deliberately, rather than reflexively out of habit or ideology.

Parliamentary or legislative accountability, too, should vary according to context and style. Shaping and adaptive styles, for example, involve more innovation and risk taking, and therefore may fail more often. They might fall foul of scrutiny that is based on narrow metrics or focused on finding failure and assigning blame. If public servants feel that the yardstick used to measure success is always derived from a classical style, they’ll be reluctant to follow an adaptive approach. In an ideal world, legislative bodies would scrutinize different contexts in different ways—adaptive ones more qualitatively and dynamically, classical ones more quantitatively. A private-sector company that never makes a mistake isn’t taking enough risks; this is a much tougher mantra to live by in the world of politics and 24/7 media scrutiny.

The second mistake is applying styles in contradictory ways. Take education reform. A government could decide to follow a shaping or an adaptive style, allowing schools to decide how and even what to teach, but the center might continue to act as if it were controlling those decisions. Here the classical style at the center could undermine the adaptive style at the frontline. It is essential to take a coherent approach to organization, leadership, metrics, and roles.

The third mistake is having a uniform organization rather than one that is differentiated according to specific contexts and styles. Different styles are effective or ineffective in different contexts and require profoundly different organization structures and behaviors, skills, corporate processes, and performance frameworks. Typically, governments and even individual departments or ministries need to be able to deploy a variety of styles in different parts of the organization. Many business units also need to be “ambidextrous,” following two or more styles at the same time. (We will explore the organizational consequences of the different styles in our next article on this topic.)

From Theory to Practice

Strategic styles have always varied. Let’s go back to our first two dimensions—predictability and malleability. Even in 1947, Marshall’s visionary approach to Europe contrasted with his strategy for the U.S.S.R., which was based on George Kennan’s theory of containment. Marshall believed that the overall nature of the Soviet threat was predictable. But when it came to malleability, he thought the U.S. could shape the European strategic context but not the Soviet one. At the time, he could not see the U.S. defeating or converting the Russians. So while the U.S. chose a visionary style for Europe with the Marshall Plan, containment of the U.S.S.R.
represented a more classical approach: trying to improve America’s competitive position, and weaken Russia’s, in an environment that was fixed in the short term.

Like the U.S. after the Second World War, governments today need to be able to choose from a range of styles. Having chosen a style, they then need to align their organization, culture, and resources by asking themselves:

- Do we have a systematic approach to assessing strategic context?
- Are we then choosing the appropriate style of strategy?
- Are we aligning our planning behaviors with that chosen style?
- Do we have the necessary capabilities to execute the chosen style?
- Do we understand what it takes to run different strategic styles in different parts of the organization (ambidexterity)?
- Do we have the right leadership model to implement our style and make it work?
- Are we incorporating this strategy perspective into our reform programs to ensure that our efficiency fixes are not merely short-lived but sustainable and adaptable?

FROM ECONOMIC DEVELOPMENT plans to cost reduction programs, a government’s choice of strategic style is vital. To get it right, governments need to understand their environment, choose the right strategy, and adapt their organization. Government strategy needs a strategy.

NOTES
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