

## **WHAT ABOUT MUNICIPAL STRATEGIC MANAGEMENT AND PERFORMANCE MEASUREMENT**

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**Abstract:** *The purpose with this paper is to study how environmental uncertainty affects strategic priorities and to what extent the strategic priorities could be monitored through performance measures, within a Swedish municipal context. The findings show that in some areas, such as a budget in balance and cost control, there are traditional priorities and performance measures, whereas in other areas such as monitoring day-to-day improvements and growth and expansion, there is less support from performance measurement systems.*

**Keywords:** *Strategic areas, municipal CFOs, performance measurement*

### **INTRODUCTION**

It is from time to time stated that the single most important task for management is strategy (Macintosh, 1994). In a classical manner this comes down to two different tasks, i.e. formulating a strategy and implementing a strategy (Andrews, 1971). The latter task is usually integrated with management control ideas where historically important authors like Anthony (Anthony, 1965) places management control in the area in-between strategy and operations in an organizational hierarchy. Still today, even though the first thoughts in line with the above reasoning, is dated around the second world war and was first fostered at Harvard Business School (Merchant, 1989), there is an interest in what circumstances that contributes to the strategic thinking in organizations and to what extent that impacts strategic actions. In this context modern performance measurement and management ideas have come to grow and it has had a natural impact on how systems and models have been developed.

Even though performance measurement and management ideas in its contemporary form could be traced back 50 years in time, there have been two developments that have triggered the interest in the research community. Firstly there has been an increased technological development especially around the ability to store and present data and information in a never-ending capability. This has made it even more important to really understand what information is needed since there is more or less an infinite supply of data in larger organizations. Secondly there has been an increased interest in broader information as well as in financial reporting, a trend that could be described as a consequence of the relevance lost debate in general and the balanced scorecard models been developed in particular. New information needs have been named and the information market has become even more demand oriented. Much of the

development that is happening today comes from the industry and very few new ideas come from public administration in general and municipal organizations in particular.

Over some time now there has been a transfer of management ideas from the industry to public sector, which has come to be summarized in the concept New Public Management. Since the public administration in many ways is an even more complex operation to manage, due to several different stakeholders and due to huge volumes handled, there is a possibility to use resources in a more effective way, if effective management tools are used. In this study effectivity is about measuring to what extent an operation is reaching its goals. As a consequence performance measurement comes down to being able to follow how well a strategy is implemented, and if the goals are reached. In a way, this also defines the purpose behind developing extensive measurement systems, and that is to be able to measure how well the organization is fulfilling its strategic intent and purpose.

This paper focuses on strategic management in a municipal context. Since two basic tasks are formulating and implementing a strategy, this is also of interest in this paper. This interest could be formulated into three questions; [1] in what areas does municipal CFOs consider uncertainty?; [2] in what areas are there strategic focuses?; and [3] in what ways is it possible to follow performance? In this way, strategic management is understood as being conscious of uncertainties, making strategic priorities and then measuring performance. Even though much of the development in the area of strategic management and performance measurement today comes from industry, there should be a clear interest within public administration to be able to translate and transform ideas and models from industry to public sector. Especially since the public sector is so diversified and deals with so many different operations and since computer technology and modern information systems make it possible to follow and monitor complex operations.

## **THEORETICAL FRAMEWORKS**

One important task for strategic management is to handle strategic uncertainty. Usually this is done through an ongoing alignment with the changes and uncertainties in the environment (Andrews, 1971; Anthony, 1965). For a municipal organization, uncertainties can come from political and regulatory stakeholders (Ebrahimi, 2000). In order for the organization to be able to act in a strategic way, it therefore needs to scan its environment for potential uncertainties and threats which can be done by the top managers, special units or parts of an organization (Porter, 1980). Because of the problem with scanning the entire environment research have argued that it needs to be decomposed into segments (Bourgeois, 1980; Fahey & Narayanan, 1986). One segment consists of remote environmental sectors, such as political, economic, social, cultural and technological ones (Asheghian & Ebrahimi, 1990; Sawyerr, 1993). From another point of view, the task environment consists of issues dealing with goal setting and goal achievement (Bourgeois, 1980; Duncan, 1972). Altogether, strategic management is thus a form of continued alignment of the internal ambitions with the ongoing changes in the environment.

When making strategic priorities it becomes important to understand both the internal and external environment in order to handle strategic uncertainty. There are several important differences between how private businesses are operating compared to public sector management, especially shown in the environment (Rainey, Backoff, & Levine, 1976; Ward & Mitchell, 2004). One of them is that the public sector is dependent on formal regulations and procedures more than the private sector, which also affects how strategic management is done. The customer is the citizen or constituent, which does not pay for the service directly but indirectly through taxes, in most cases. It then becomes important to understand in what areas the critical success factors can be identified (Rockart, 1979), something that from a public management perspective gives vital input to the strategic management in general and strategic priorities in particular.

After deciding what the strategic priorities are, it becomes important to decide in what ways performance within the strategic areas should be measured (Poister & Streib, 1999). There are several different areas that need to be understood and dealt with in order for the performance measurement to be effective. Measures should for example be derived from goals and objectives, different forms of standards or targets needs to be established and instead of focusing on what data is available there should be a focus on what is important to measure. It is also important measure over time to be able to identify changes in performance and also to measure and define metrics in a similar fashion over several operations in order to be able to benchmark and compare performance. The timing in measuring a performance is also crucial in order to be able to take action when performance is not satisfactory.

## **METHODOLOGY**

This paper is based on a survey conducted in March 2014. There are 290 Swedish municipalities and they were contacted by e-mail. The CFO or the person with an equivalent job description was asked to answer a web-based survey with mainly 18 proposals and three background questions. The proposals, which are translated from Swedish, are presented in the appendix. The respondent was asked to give a response on the proposal based on a seven grade Likert-scale (Norman, 2010). If the respondent answered 1, the respondent did not agree to the proposal at all and if the answer was 7 the respondent fully agreed to the proposal. The survey was open for the respondents for about a month and during that period 91 answers were given. Out of them 85 answers were complete and were used as the empirical material for this study. The method was in many ways suitable for the purpose of the paper and even though a higher response rate always is better, the collected material showed enough of variance to be interesting.

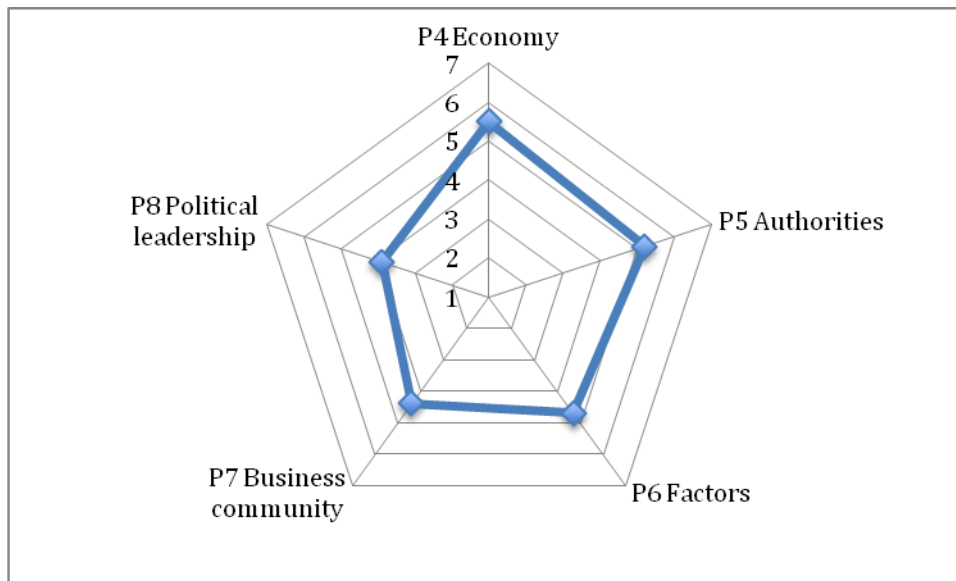
Since this paper is of a descriptive kind, with three rather open questions, this method give a broader view and a more general picture of what the CFO's opinions are within this field. There is a problem with a general picture such as the one presented in this paper, much due to the fact that a municipal operation is complex and multifaceted. The picture presented is therefore of an aggregated kind and mainly based on one respondent's opinion and view. This could also be biased based on how the CFO wishes things to be instead of how they actually are. Nevertheless, it gives a quick glimpse of

how they look at strategic management and performance measurement, which for example gives insights into additional studies and more focused methods. In the next section, the findings will be presented and this is done with an ambition to give a broader picture. Likert-scale studies are not suitable for advanced mathematical calculations, due to the type of scale used, and because of that, the only actual calculation done was three means. In addition, seven combinations between two questions are presented in frequency tables.

## FINDINGS

From a more general perspective, the findings could be categories or clustered into three groups. The first group consists of proposal 4 to 8 and deals with how uncertainty is perceived. The second group of questions is proposal 9 to 15 and this group answers to questions about strategic priorities. In the final group, proposal 16 to 20, the respondent's answers describe how performance measures and reports are dealt with in the organization. In order to get the general view or picture, a mean of the answers to each proposal or question in the groups have been calculated and the answer is presented in a radar-diagram in the coming paragraphs.

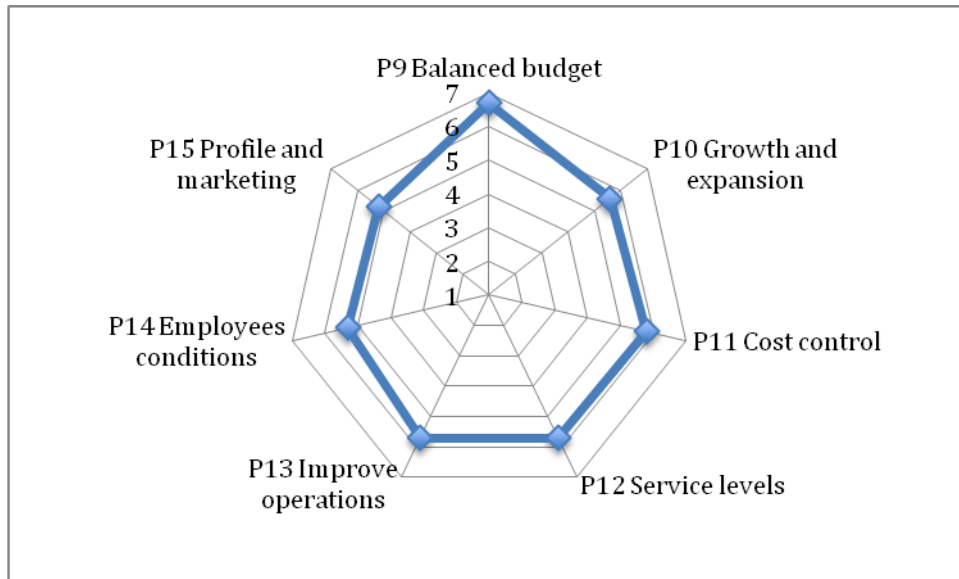
**Figure 1 Means from proposal 4 to 8, grouped into how uncertainty is perceived**



In the first group of answers to proposal 4 to 8, the findings show that the respondents agree on the fact that uncertainty is produced from external factors like the general economy, proposal 4, and legislative and regulating authorities, proposal 5, to a greater extent. It also shows that they agree that there are many factors that influence the municipal outcome and economy, but it is not an uncertainty factor in the same way, nor is the business community's success or failure an uncertainty factor. The least source of uncertainty is the political leadership and how they are working. The diagram, see figure

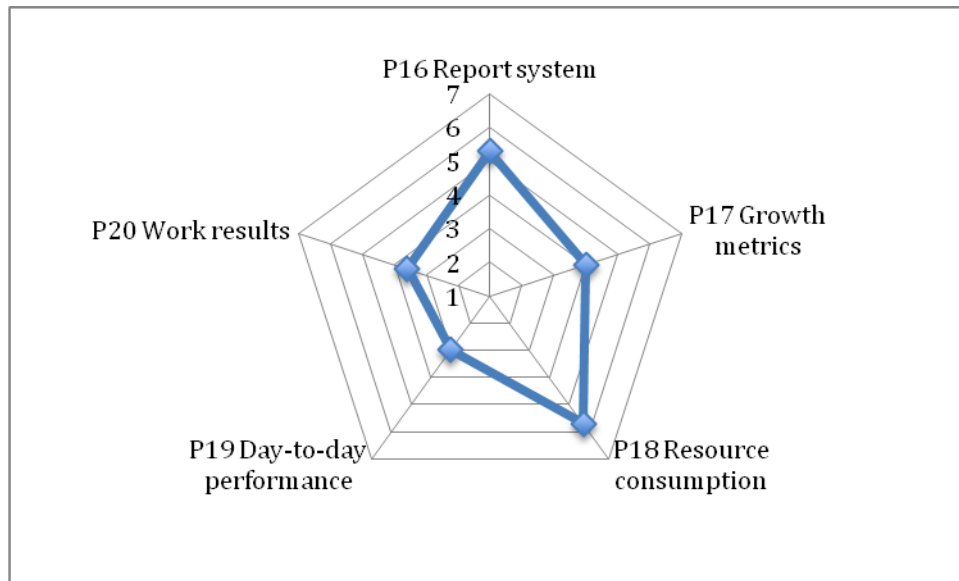
1 below, show a slight tendency to acknowledge uncertainty as something coming from the outside, from the general economy and authorities, and not from the inside, e.g. the political leadership.

When it comes to answers about strategic priorities, the means shown in a radar-diagram can be found in Figure 2 below. In this group of findings, there is one thing that stands out and that is the answer to proposal 9, a budget in balance, which has a mean of 6.7. It is a clear statement from the CFO's but maybe not a surprising one. One might think that to a CFO it is of highest importance in a strategic perspective to have a budget in balance and a good economy in general. The answers also show a strategic interest in growth and expansion (proposal 10) cost control (proposal 11) and in adapting service levels, and improving operations in general (proposal 12 and 13). However, when it comes to two additionally interesting areas, employees' conditions and marketing, the answers show a slight decline, but they are still quite high since the mean is above 5.



**Figure 2 Means from proposal 9 to 15, grouped into strategic priorities**

The final group of answers shows two different perceptions. In a more general way, the respondents on average are pleased with the report systems (the mean on proposal 16 is 5.3) and they also think that it is fairly easy to follow costs (the mean is 5.7 on proposals 18). However, on a more specific level it is harder to follow growth and expansion, with a mean of 4.0, and both day-to-day performance and work results are hard to trace in the reports. The respondents give those two proposals a mean of 3.5 for proposal 19 and 3.6 for proposal 20. So the performance reporting systems seem to be working on a general level but when it comes to more specific areas the respondents are not that pleased.



**Figure 3 Means from proposal 16 to 20, grouped into performance measurement and reports**

In addition to the more general picture painted above this paper continues with cross-tabulating different proposals with each other. With this kind of cross-referencing the idea is to see if statements and proposals from one perspective are back with support from other proposals and perspectives. Each of the seven presentations or cross-tabulations is shown in summary in a table. Since working with strategic management issues in many cases comes down to understanding how to deal with uncertainties the first table shows how different type of municipalities see uncertainty in the general economy, which is shown in table 1 below. There is a slight tendency towards showing that municipalities closer to big cities see the general economy as a larger uncertainty factor than the average municipality. Other than that, the uncertainty concerning general economy is fairly evenly distributed.

Type of municipality	P4 Impact from general economy						
	1	2	3	4	5	6	7
Metropolitan				1		1	
Suburbs of metropolitan					1	4	7
Town				1	2	8	
Suburbs of town					1	1	
Commuting municipality			1	6	2	6	4
Tourism and hospitality municipality			2	1	2		1
Goods-producing municipality				1	6	6	2
Sparsely populated municipality				2	2	1	
Municipality in densely populated region					2	4	1
Municipality in sparsely populated region					2	2	

**Table 1 Type of municipality and general economy uncertainty**

One of the strongest indications in the survey was that finding a budget in balance was of strategic importance. This more general statement is interesting in itself but it is also interesting to see if the respondents that thought the issue of getting a budget in balance also think that there are many factors to deal with which would cause uncertainty. This combination is shown below in table 2. 66 of the respondents' answers that a budget in balance is of highest strategic importance, but when it comes to different factors affecting the outcome of the local economy the answers are more evenly distributed, with a focus around 5. This might be interpreted as if an uncertainty is recognized but its impact is not that crucial.

P9 Balanced budget	P6 Uncertainty from many factors						
	1	2	3	4	5	6	7
1							
2							
3							
4							
5				3			

6			2	4	5	2	2
7		4	9	13	18	16	6

**Table 2 Cross-tabulation from proposal 9 and 6**

In a similar way it is interesting to combine two questions or perspectives that should support each other. If the organization focuses on the budget, it should also be interested in financial dimensions in the financial reporting system. The answers are shown in Table 3 below. The majority of the respondents have answered that it is easy to use the report system, but also here there is a more even distribution with several outliers. Two respondents have answered 2 and 3 on proposal 16, which could be interpreted that even though there is a strategic focus on a budget in balance it is not easy to follow in the existing reporting system.

P9 Balanced budget	P16 Easy to use the report system						
	1	2	3	4	5	6	7
1							
2							
3							
4							
5					2	1	
6			1	3	6	5	1
7		1	1	8	19	31	6

**Table 3 Cross-tabulation from proposal 9 and 16**

In the survey there are some questions/proposals that ask about the same topic but from two different perspectives. In the following section four of them are presented. One important part of leading an organization strategically is to decide whether it should grow and expand. However, if that decision is made then it also becomes important to follow to what extent there actually is a growth. Among almost half of the answers that state that growth and expansion is of strategic interest, a majority is not stating that they have clear metrics and reports showing this. The answers to this combination are presented in Table 4. It seems like there is a tendency to think that growth and expansion is important but the CFO does not have measures to follow whether this is accomplished.

P10 Growth and expansion	P17 Metrics and reports that show growth						
	1	2	3	4	5	6	7
1							
2			1				



3		1	1	1	1		
4		2		4		1	
5		3	4	10	5		
6		1	4	9	11	1	
7	1	1	4	6	5	6	1

**Table 4 Cross-tabulation from proposal 10 and 17**

Traditionally, financial information systems have focused on costs and consumption of resources. In the next combination of proposals, shown in Table 5, there should be dominance towards showing costs, especially if cost control is of strategic importance. That is to a certain extent also true since there is an even distribution around answer 6 on proposal 18 (if the report systems show costs). However, it is also interesting to see that as much as a quarter of the answers are a 5 on the proposal if costs are of strategic importance. Overall, the findings are more or less as expected.

P11 Cost control	P18 Reporting systems show costs						
	1	2	3	4	5	6	7
1							
2						1	
3							
4			1	1	2	2	1
5				2	4	16	
6			2	2	6	11	4
7			1		6	10	11

**Table 5 Cross-tabulation from proposal 11 and 18**

For sometime there has been a focus on improving day-to-day operations within industry, something that also is a part of New Public Management. Two of the proposals were centered on this, proposal 13 and proposal 19 as shown in Table 6 below. This seems, however, to be an area where there has been little or not sufficient development. When it comes to being able to measure day-to-day performance, there is a great variance among the answers, with a center around 3 and 4. These answers are in this context fairly low. At the same time, a majority says that improving daily operations are of strategic importance.

P13 Improve operations	P19 Measure day-to-day operations						
	1	2	3	4	5	6	7

1							
2						1	
3							
4			1	1	2	2	1
5				2	4	16	
6			2	2	6	11	4
7			1		6	10	11

**Table 6 Cross-tabulation from proposal 13 and 19**

Being able to measure daily performance is also something that involves the ability for an employee to follow their work, which was one of the strategic proposals. Combining proposal 14 with 19 shows to what extent respondents' look at employee's conditions as a strategic issue and if there is a possibility to measure what is done, what the performance is. This combination is shown in Table 7. As presented earlier in this chapter there is a somewhat weaker tendency towards focusing on employee conditions as a part of strategic issues, which also is shown in Table 7. Nevertheless there is a slight linear pattern showing that the two proposals follow each other to some extent.

P14 Employee conditions	P19 Measure day-to-day operations						
	1	2	3	4	5	6	7
1							
2							
3		1		2	1		
4	3	3	5	3		1	
5		4	6	7	6		
6	2	3	5	6	5	2	
7		3	4	3	5	2	

**Table 7 Cross-tabulation from proposal 14 and 19**

Altogether, the findings show that some of the answers are close to what could be expected while others show a greater variance. In the following section, the paper continues with a short discussion of the findings.

## **DISCUSSION**

Overall answers show what might be expected. CFOs think that it is of strategic importance to have a budget in balance and they also feel that they can use their reporting

systems to follow this. They also see it as important to follow costs and consequently they find that information to a large extent in the reporting systems. When it comes to handling uncertainty as a part of the strategic management process, there seems to be an emphasis on issues they can not control, such as the general economy and legislative and regulatory authorities. The political leadership, which is one of the most important stakeholders, seems not to create too much of a problem or uncertainty. In a more general perspective, it seems like the respondents have a higher profile among the answers when it comes to strategic intent and a slightly lower response distribution when it comes to performance measures and reporting. In a way, this might be interpreted as intention and reality, what the CFO wish for and what they live by.

In some areas there seem to be answers that might not be expected. One of those areas is that if there is a specific strategic intent it is not always easy to follow what the organization performs. One such example is the ambition to grow and expand, which seems not to be that easy to follow in reports. In the same way, there is an intention to improve on a day-to-day basis but at the same time this is an area that is hard to measure and report on. This is an interesting result since at the same time the respondents say that they are interested in controlling costs, and that is something that can be monitored in the systems. But for some reason that is not connected to day-to-day operations. Being able to follow and monitor daily operations is also something that on average shows lower distributions among the answers. When the relevance lost debate turned into a balanced scorecard solution, many public administration managers were quick to embrace the non-financial reporting thought. As a last question in this survey, the respondents were asked to name non-financial measures and reports that they used on a regular basis. Only one forth of the respondents did this, which might signal that they do not work with that kind of reporting to the extent that it sometimes has been presented.

## **CONCLUSIONS**

In this paper, three different areas have been connected to strategic management, that is, dealing with strategic uncertainty, making strategic priorities and working with performance measurement. In a way the findings show that these three areas could be understood together, as parts of strategic management. In order to be able to work with strategic management, one must understand the uncertainties, make priorities and follow performance. Theories within this field have a heavy focus on business operations, which in several ways are different from working in the public sector. In many cases the stakeholders are harder to grasp, compared to in a business environment, where, for example, the customer is equal to a citizen and boards are made of different political opinions. Nevertheless, the findings show that municipal CFOs are heavily focused on thinking strategically.

When it comes to the three areas, which in this paper makes up strategic management in a municipal context, the proposal that got the highest average was how the general economy had an impact on operations. This is truly something that neither the CFO nor the politicians can do something about. In the same way, it seems like the CFOs do not think that the political leadership is creating uncertainties, which might mean that

they have an executive management function that is working. Among strategic priorities the proposal saying that it is of strategic importance to work with a budget in balance got the highest average. In general all of the proposals in this grouping received high averages. This might be explained by a general interest among CFOs in strategic question. On average the third group of proposal answers was much lower. This could be due to the fact that the respondents have high intent, strategically, but it might be more difficult to follow that intent in reports and measures. Even though saying that the highest average among answers in these categories was on the proposal that it is easy to follow planning and outcome in the report systems.

Since the municipal environment is so much more complex in many aspects, it becomes interesting just to study traditional business logic, when it comes to contemporary management control theories. In some cases that logic is easy to transfer and translate (such as a budget in balance) but in other areas (such as growth and expansion) it becomes harder to compare ways of working with the theories. In the long run, benchmarks between different branches and environments could enrich the other areas and maybe in the future, businesses will look at how the public sector have chosen to solve issues with strategic management and performance measurement.

## **APPENDIX**

The following proposals were used in the survey.

- P4 The general economy in Sweden largely impacts municipal operations.
- P5 Legislative and regulatory authorities often alters our business conditions.
- P6 There are so many factors that affect the outcome of the local economy, and the economy is then perceived as uncertain.
- P7 There is a strong link between if the business community in the municipality succeeds and if the municipality succeeds.
- P8 The way the political leadership is working, is creating uncertainty for municipal operations.
- P9 A functioning economy, such as a balanced budget, is strategically important.
- P10 Growth and expansion are key strategic areas that we work with.
- P11 In our business, it is a strategic priority that we control our costs.
- P12 It is strategically important for the municipality to adapt the municipal service levels.
- P13 We work long term to improve the daily operations.
- P14 It's a strategic priority that employees at all levels in the municipality have the best conditions possible to do their jobs.
- P15 In our municipality, it is strategically important for us to continually enhance our profile and we market ourselves in the best way.
- P16 It's easy to follow the municipality's financial planning and outcome in our report system.
- P17 We have clear metrics and reports that show growth and development.
- P18 Our reporting system shows where we consume resources in the municipality, ie where the costs were incurred.
- P19 The performances in the day-to-day operations are easy to present using reports.
- P20 Employees at various levels in the municipality are able to get access to reports that show the results of their work, what they have done.

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