*Strategic Management*, 9e: Chapter 18 study guide

Strategy development in public and non-profit organisations

Public organisations

In many countries around the world, the public sector forms the major part of industrial and commercial activity, for example, telecommunications services in South Africa and the French government controlling shareholdings in its national electricity and gas companies, although some of these have now been privatised. Since such companies often compete internationally with the private sector, many of the same strategy considerations apply to public and to private organisations. The major difference has been the lack in government-owned institutions of the objective to deliver a profit. The European Commission has now taken the view that state subsidies may not be compatible with the Treaty of Rome, and public organisations have come under increasing pressure to apply commercial criteria.[[1]](#endnote-1) In Europe, there are many organisations in the public sector, ranging from electricity supply in some countries to public health bodies in others. Their individual requirements for strategy development will depend on their precise nature. Certainly, those that are being privatised will need to consider this area.

Outside Western Europe, many key industries remain in public ownership. However, the trend in most parts of the world is now towards privatising large public companies in the utilities and telecommunications sectors. The arguments in favour of the change of ownership have been set out in various annual reports of the World Bank. The principal impact of privatisation on strategy will depend on the form that privatisation takes. Some companies may remain monopolies even though they are in the private sector.

The main considerations regarding strategic management in public organisations include:

 *Policy and politics*. Some European countries and Asian countries such as India and China are committed to the view that public companies are there to provide a public service. Strategy is therefore directed towards achieving this aim. The political policy of the government will guide strategic development.

 *Monopoly suppliers*. Public authorities are often monopoly suppliers of a service. While they may be under pressure to operate efficiently (however that is defined), they may be unable to spend any surplus profits they generate. Moreover, they will be subject to changes in government policy direction and will lack the consistency of private organisations as a result. The lack of choice for customers will mean the suppliers are not subject to the market pressures that affect business strategy in the private sector.

 *Bureaucracy and slower rate of change*. Being part of the public sector may affect the management style and values of managers and the workforce, leading specifically to greater bureaucracy and a slower rate of response to outside pressures.

 *Battle for resources from government*. Much of the real strategy in the public sector across Europe is fought over the allocation of resources from central government. Increases in annual budget allocations or cutbacks in funds affect fundamentally the service and level of investment in physical assets available to the public. There is no reason why such considerations should not be subject to strategic scrutiny, but the nature of the evidence and logic may be different.

Not-for-profit organisations

Both public and private organisations operate in this area: charities, churches, even some educational institutions, for example. Non-profit organisations are usually founded for reasons other than commercial considerations: for instance, bird and animal welfare, disease research, international rescue, poverty alleviation. For these reasons, strategic management must first recognise and reflect the values held by such organisations.[[2]](#endnote-2) It also needs to understand the voluntary nature of much of this activity and the varied sources of funds often available.

All these considerations will have a profound effect on strategy in such organisations. Decision making may be slower and more uncertain. There may be more lobbying of funding bodies over individual decisions. There may be several conflicting objectives that make strategy difficult to develop. The style and expectations of the organisation need to be built into the strategy process. These matters are explored in depth in Chapter 18 of this text.

1. For example, the EU Barcelona Summit in 2002 was unable to agree on the complete liberalisation of energy markets across the European Union – in spite of discussing the matter for over 20 years and signing the Treaty of Rome in 1957! [↑](#endnote-ref-1)
2. Whelan, T L and Hunger, J D (1991) Strategic Management, 2nd edn, Addison-Wesley, Reading, MA, Ch11. [↑](#endnote-ref-2)