

Exploring Public Sector Strategy

***Edited by Gerry Johnson
and Kevan Scholes***



An imprint of **Pearson Education**

Harlow, England · London · New York · Reading, Massachusetts · San Francisco · Toronto · Don Mills, Ontario · Sydney
Tokyo · Singapore · Hong Kong · Seoul · Taipei · Cape Town · Madrid · Mexico City · Amsterdam · Munich · Paris · Milan

Pearson Education Ltd

Edinburgh Gate
Harlow
Essex CM20 2JE
England

and Associated Companies throughout the world

Visit us on the World Wide Web at:
www.pearsoned.co.uk

First edition 2001

© Pearson Education Limited 2001

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by means, electronic, mechanical, photocopying, recording or otherwise, without either the prior written permission of the publisher or a licence permitting restricted copying in the United Kingdom issued by the Copyright Licensing Agency Ltd, 90 Tottenham Court Road, London W1T 4LP.

ISBN-13: 978-0-273-64687-7

British Library Cataloguing-in-Publication Data

A catalogue record for this book can be obtained from the British Library

Library of Congress Cataloging-in-Publication Data

Exploring public sector strategy/edited by Gerry Johnson and Kevan Scholes.

p. cm.

Includes bibliographical references and index.

ISBN 0-273-64687-7

1. Public administration. 2. Strategic planning. I. Johnson, Gerry
II. Scholes, Kevan.

JF1351. E96 2000

352.3'4-dc21

00-064367

10

09

Typeset in 10pt New Century School Book by 3

Printed in Great Britain by Henry Ling Limited, at The Dorset Press,
Dorchester, DT1 1HD.

3

Global influences on the public sector

By Jan Eppink and Steven de Waal

Editor's introduction

Chapter 3 of *Exploring Corporate Strategy* is concerned with how managers might analyse the business environment and its impact on the organisation's strategies. One important theme is the growing importance of global influences. In this chapter Jan Eppink and Steven de Waal illustrate how a selection of the analytical techniques from *Exploring Corporate Strategy* can be used to build a picture of how global forces are increasingly likely to shape the environment of the public sector organisation. This is particularly important given that many public sector managers will have worked for most of their careers in organisations whose outlook (geographically) tended to be confined to the community (local or national) they were serving – and global forces seemed of little relevance to the public sector.

3.1 Introduction

For a long time people working in the public sector have thought of their 'business' as intrinsically good, or unquestionably necessary and a public duty. Moreover, the outside world should keep its hands off. In the past, society has accepted these views without too many questions. In the past decade, however, developments have shown that this is no longer the case (e.g. Ryan, 1999). Society is becoming more critical of the public sector, while more external influences are making themselves felt. This makes it necessary for organisations in the public sector to think more explicitly about what is happening on a more global scale and develop plans for the future. Earlier, organisations got away with defensive actions, but this will no longer prove to be a lasting solution. A successful new strategy will be based on intimate knowledge of what goes on outside one's own organisation, own sector, and own country. Often one hears managers, in both the private and public sectors, talk about unexpected discontinuities: in many cases the idea of discontinuity is more a perception than a fact. The more one looks for information about the future, the more one will pick up bits

of information that are pertinent to survival. There will always be true discontinuities, but many rapid developments are symptoms of fundamental trends. As an example, take the explosion in the computing power of PCs. This is a very rapid and, in the eyes of many, turbulent development indeed, but behind it lies Moore's law stating that the computing power of microprocessors will double every 18 months. This law has proved to be remarkably correct over the past decade.

Research has suggested that, in general, many organisations emerging from stable environments have underdeveloped planning capabilities (Brews and Hunt, 1999). In this chapter we will therefore alert managers in the formerly more or less stable public sector to developments they may not yet recognise as important for the future of their organisations. We will also show how some of the techniques discussed in Chapter 3 of *Exploring Corporate Strategy* may be used to better prepare public sector organisations for the fast-changing global environment.

We will first give a broad outline of some of the major environmental influences on the public sector using a PEST analysis (see *Exploring Corporate Strategy*, Section 3.3.1). This will provide the background for the following sections showing how other analytical techniques might be used. In that context we will describe two scenarios developed in the public sector and illustrate the decisions that were based on them (*Exploring Corporate Strategy*, Section 3.3.3). Then we will show how Porter's five forces analysis (see *Exploring Corporate Strategy*, Section 3.4) could be used to pinpoint strategic issues in the healthcare sector, and finally how strategic group analysis (*Exploring Corporate Strategy*, Section 3.5.1) can help organisations in higher education.

3.2 PEST analysis

The aim of a PEST analysis is to identify the forces that impact on the organisation by classifying them as Political, Economic, Social or Technological influences. An interesting question is if and how such an analysis, first developed for use in the private sector, can be applied in the public sector also. In his chapter on the implications of 'publicness' for strategic management theory, Alford has suggested that there is a public-to-private continuum, ranging from 'purely private' to 'purely public' organisations. 'Purely private' organisations are faced with environmental developments over which they may have no influence at all or where it is considered to be unethical to try to influence them. On the other hand it is acceptable or even seen as a task of a 'purely public' organisation to think about developing policies about an issue, for example policies to lower birth rates in certain countries. It is considered as forward looking if the United Nations or governments start

programmes with that aim, whereas it would be deemed unacceptable if a private organisation tried to do the same. Some forces in a PEST analysis are more open to influence by public organisations than by private organisations. Another difference is that the public sector is more layered than the private. Some issues are dealt with at a global level (e.g. free trade) and others at a national, county/province or municipal level. Each higher level sets the degrees of freedom for the lower level(s). In the private sector such a 'hierarchical' structure is either not found or expressly forbidden (cartels).

Not all influences can be discussed in detail here, but the following global trends are of particular importance to the future strategy of public sector organisations. The information is the result of a PEST analysis and can be used as part of the input for scenarios, five forces analysis and strategic group analysis, which will be discussed later.

3.2.1 *Political*

Not surprisingly, political influences are of major importance for the public sector.

One of the most relevant factors for the public sector will be the trend towards deregulation and privatisation. Looking back some 20 years, in many countries, one will be surprised to see how many tasks that were considered to be typical public sector tasks have been deregulated or privatised. In almost all cases there has been pressure on public sector organisations to increase effectiveness and efficiency. Examples are the production and distribution of electricity, the water supply, telecommunications, railway services, broadcasting, etc. Before the 1980s such services were considered to be in the public domain, at least in many European countries.

Now in most countries they are deregulated or have been sold to the public. Comparing this with the situation in the USA, we can note that private companies have always provided many of these services there. This philosophy is now gradually being adopted in Europe, but with many differences in speed and direction (UK: the 'third way') between countries. (See Eleanor Doyle's chapter in this book.)

Just to illustrate this, in the early 1980s companies that provided temporary employees were not looked upon very favourably in the Netherlands. There was even a ban on new companies for some time. The politically correct view was that regional labour agencies should match supply and demand, rather than the free market. Nowadays the effectiveness and efficiency of companies such as Randstad, Vedioir and Manpower are much applauded. In an issue of the *Financial Times* of July 1999 it was observed that even in a country such as France, with traditionally a large degree of government influence over the whole of society, the socialist government of Jospin is seriously considering the

question of how to lower the level of government involvement in various aspects of society. In sum, what is regarded as a public sector task is as much the result of political choice and circumstances as it is of principle.

Another development that will indirectly affect public service organisations in the long run is the increasing trend to liberalise world trade. Now that the World Trade Organisation is in place, we will see a gradual increase in competition between countries, because subsidies will have to be lowered in the course of time. A similar development is already under way in Europe with the extension of the European Union in an easterly direction. With the much lower costs of land and labour in those countries, we can expect a gradual shift in agricultural production (primary as well as processing) from western Europe to the east. This is bound to have an impact on the type and structure of the agricultural production that is left. No doubt governments will have to deal with the consequences of this development, in terms of both employment and the use of land.

3.2.2 Economic

Against the background of the liberalisation of world trade mentioned above, the present internationalisation and globalisation of the economy will continue and even speed up. For countries with open economies such a development can seriously affect the trend in GDP. Some economists state that there is not much to fear from globalisation, since it impacts only a small portion of the economy. This may or not be true, but the effect of Japanese competitors on the production of cameras, television sets, motor cycles and automobiles in western economies has been dramatic. What can we expect to happen if the economies of large Asian countries such as India and China reach a stage comparable to that of Japan 25 years ago? Many people think technological and educational levels are not high enough in those countries. That impression is wrong: in a recent issue of *Business Week* it was mentioned that the CEO of McKinsey & Co., the international management consultants, was educated in India, as was the CEO of US Airways and another group of leading high-tech US entrepreneurs. Many of the world's largest software companies have development laboratories in Hyderabad, where there is an abundance of highly educated engineers willing to work at pay rates of slightly over 1,000 dollars a month. The products they make can be instantaneously delivered through telecommunications to the place where they are used. The differences in education levels and geography have disappeared for such products. During a visit to China in 1984, one of the authors met an American industrialist who mentioned that he was outsourcing the production of microchips to a Chinese company in the Beijing area!

The pictures we see of the deprivation in countries such as China and India are far from representative of what those countries are capable of now and in the future. Such developments will not fail to have an impact on the level and type of employment as well as affordable pay levels for certain types of work in western economies. One of the great dangers in strategic management is to underestimate the potential of the other competitors. It would be a grave mistake to underestimate the future economic potential of emerging countries. The result may be that, just as with the arrival of the Japanese on the world market, individual companies and maybe even entire industries will come under pressure. This will change the industrial structure of countries, with many consequences for levels of employment and other social issues. Clearly, the public sector in each country should consider the impact of this development and think of possible (re)actions, and create the conditions for such reactions.

On a more national level one can expect income levels to be more differentiated than in the past because of the emergence of new international competitors. On the one hand one can see a scarcity of highly educated people, the people Drucker called 'knowledge workers' as far back as the early 1960s, and on the other hand groups of people who are less talented or motivated and for whom it may be more difficult to find a satisfying job with reasonable pay. In view of the more international labour market for knowledge workers than for less educated employees, it will not be surprising to see larger differences in pay developing between the groups. In countries with a history of 'limitation' of differences in pay this may lead to social pressure to counter or slow the trend. In countries with traditionally a more open market philosophy the effect of this trend may be outright poverty, social unrest and maybe even increased levels of criminality. The public sector will have to anticipate these consequences and develop adequate responses.

Another difference in wages, in some countries, is developing between the private and the public sector, with the private sector paying considerably higher salaries than the public sector. Since the public sector depends to a large extent on knowledge workers for whom there is a big demand, the serious problem arises of how to attract high-level individuals for the public sector. We are moving in the direction of a knowledge society, but we see that it is increasingly difficult to pay teachers and researchers, who provide the fundamentals for that society, enough to make the public sector attractive for them.

In some countries one can expect relative increases in disposable income for people who retire. In many cases they have taken care of their retirement financially. Often the obligations of mortgages, education of children, etc., will have ended, leaving them well off for their

retirement. In the past, in many countries, laws have been passed with the aim of providing the elderly with a decent living in that period of life. Such laws were drawn up with the idea in mind that this group was a vulnerable one. Many years later, this idea may no longer be true in all cases. The consequence in many countries is the privatisation of such benefits, with a smaller role for part of the public sector.

The trend towards globalisation has led to the rise of so-called 'mega corporations', for example oil companies (Shell), car manufacturers (GM, Toyota), producers of fast-moving consumer goods (Procter & Gamble, Unilever), makers of consumer electronics (Sony, Philips), telecom operators (ATT, BT), and many others. Because of the ongoing wave of mergers and acquisitions their number will no doubt increase in future. These companies employ large numbers of staff in many countries. A decision to invest or disinvest in a country can have an enormous impact in terms of levels of employment, tax revenue, technological development, etc. This gives these companies *vis-à-vis* some countries an enormous bargaining power in negotiations. Some nation states may have to think about whether they can still be effective against such global economic powerhouses.

3.2.3 Social

One important social trend is demographics, where there are various trends. One development that can be seen in various countries is an influx of people from abroad. In part, this can be caused by situations such as war in a region: Kosovo nearby and more distant African countries are current examples. Another factor is that the European Union makes possible the free movement of goods, capital, services and *people*. In some countries, in the past, inviting people to emigrate from countries around the Mediterranean Sea solved the shortage of labour. Later their relatives joined the early 'guestworkers'.

In some larger cities the consequence now is that between one-third and half of the population has its roots in another country. This sometimes leads to serious problems because of immigrants' low levels of education, poor command of the language, low income, etc. The public sector is held responsible for solving these problems, with sometimes limited resources available. The difficulties of the early immigrants are decreasing now, with in many cases the second generation integrating well both socially and educationally. Experiences in the Netherlands show that the influx of asylum seekers and other immigrants places much strain on the parts of the public sector that have to deal with it. If the EU decides to spread the influx more evenly among its members, the public sector in countries that so far have taken in relatively few people will have to prepare for this great challenge.

In Europe the population is ageing. In part, this is caused by longer life expectancy (10 years longer than some 20 years ago) but also by an overall decrease in birth rates. The effects of this are diverse. For state pensions this may mean that if no action is taken now, premiums will have to go up in future, since pensions are either paid out of the government budget, or are paid by those who are working at present and who hope that future generations will take care of them once they retire. This also affects commercial life insurance, but here the impact of living longer is less dramatic, since the insured build up capital that will be used later to provide pensions.

At the other end of the age spectrum, more than in the past, traditional family life is changing. More younger people want to follow their own careers, which leaves them with less or no time to raise their children, if they decide to have them at all. This development requires day care for children to be available. Some parents may be able to pay a commercial rate for it; in other cases the public sector may have a role to play here.

A trend that is less clear as to how far it will go and how it will affect the public sector is the individualisation of society. This leads to less solidarity between groups in society, and may be enhanced in its effects by a more materialistic mentality that is also developing. Many fear that if such a trend continues, it may cause a split in society, with serious consequences. The least the public sector can do is to make clear that in the long run such effects are detrimental to all people concerned, even to those who profit most from individualisation.

3.2.4 *Technological*

Technological developments can have direct and indirect influences on the public sector. The indirect ones may be less visible at first, but have their impact later.

In the medical field many new discoveries can be expected. The amount of money spent and the number of researchers involved are enormous. The research is done partly in the private sector in pharmaceutical and medical equipment companies and partly in the public sector in universities and laboratories financed by governments. Since there is an almost endless demand for new cures for diseases already known or only just discovered, the question of how these research efforts should be financed is a major one. Many of these research projects lead to an increase in expenses in the healthcare sector. Other projects have a different impact on costs. Research in diagnostics aimed at detecting deficiencies in unborn children may result in the number of people to be treated later being lower, but there are serious ethical aspects that are only now being discussed. There are also developments that will lead to a decrease in the number of days, if any,

that patients stay in hospital for treatment. Such research projects, in the end, lead to lower overall costs for the healthcare sector.

Developments in the field of telecommunications can have a variety of effects. First, the distance between a client of the public sector and the agency may become less important. Depending on the infrastructure available in a country (cable networks, telephone lines, etc.) the client can get information or ask questions without physically visiting the agency. Where a public sector organisation has a sophisticated Internet site, the client can interact intensely with the organisation without visiting it, for those interactions where human contact is not necessary. If such systems are further developed, fewer people may be necessary to provide information or to interact in other ways with the client. This may also have an effect on the amount of office space that is required to provide a service. For universities, such developments make it possible for students from all over the world to follow courses without leaving home. Of course, not all educational interactions can be done electronically (Becker, 1999), but those parts of the process that are individual (reading books, working on assignments) do not require the physical presence of participants at the school's location. In a way, one could say that many universities may become more like Open Universities than they are now.

The use of the Internet has negative aspects as well. For example, the public sector will have to think about how to stop violation of privacy, child pornography, fraud in e-commerce transactions, etc.

In the medical field, advances in information and communication technology make it possible for doctors to ask colleagues on the other side of the world to give a second opinion by sending them all the available information electronically and receive a reply the same day. There have already been experiments with surgeons using a robot to perform an operation on a patient 1,000 kilometres away in another country. This may seem a scary idea, but the patient is still doing well. It might well be that diagnosis and treatment in the far future may also become possible at more than arm's length. If such methods become the norm rather than the exception they are now, questions arise as to who will be responsible and/or accountable in case of mishaps, since different countries may not have the same rules for such cases. Clearly, there are a number of issues that the public sector has to deal with in this respect.

The general trend towards a more high-tech society where knowledge workers play a dominant role seems to be at odds with observations that in many developed countries the level of 'virtual illiteracy' is alarmingly high. *The Economist* of 31 July 1999 stated that in the USA and the UK this is slightly above 20%. If this trend continues, the danger of an underclass is far from imaginary. Clearly, it is an enormous challenge for society and particularly for the public sector (edu-

Exhibit 3.1 *Global trends for the public sector*

Political	Economic	Social	Technological
<ul style="list-style-type: none"> • Deregulation • Privatisation • Extension of EU • Role of government 	<ul style="list-style-type: none"> • Competitors from developing countries • Trade liberalisation • Income differences increase • Mega corporations 	<ul style="list-style-type: none"> • Demographics • Lifestyles • Individualism • Split in society 	<ul style="list-style-type: none"> • Breakthrough in life sciences • Telecommunications • Internet • Imaging

cation, social work organisations) to prevent this disaster scenario from becoming reality.

Exhibit 3.1 summarises the above discussion.

In a few cases a public sector organisation will be confronting only one of the four groups of forces. In many cases there will be a combination of two or more. To investigate the impact of such combinations on the sector, scenarios are a useful tool.

3.3 Scenarios

The use of scenarios is especially useful in situations where it is important to take a long-term *view of strategy*; where there are a *limited number of relevant key factors*; and when there is a *high level of uncertainty*. A scenario is a plausible view of a possible future. Scenarios can be used to *test the sensitivity of strategies* for different conditions and also to *challenge generally accepted views* about the future environment (*Exploring Corporate Strategy*, Section 3.3.3).

Scenarios are different from trend analysis, which may be the result of a PEST analysis, in that external developments are built into consistent 'wholes'. Many books have been written about trends (e.g. Naisbitt and Aburdene, 1990) and scenarios in the private sector (Hawken et al., 1982; van der Heijden, 1996), but far fewer have been published about scenarios that are useful for the public sector.

Early examples of scenarios for the impact of global trends on the public sector were developed by the Organisation for Economic Co-operation and Development (OECD, 1979) in Paris.

Exhibit 3.2 shows the variables that were taken into account when building the different scenarios. The four dimensions were:

- the nature of the relations likely to be established between developed countries;
- relations between advanced industrial societies and developing countries and relations between developing countries;

Exhibit 3.2 OECD scenarios.¹

Relations between developed countries	Collegial management			Partial abandonment of free trade between the poles	
Internal dynamics of the developed societies	Consensus in favour of high growth	Rapid value changes and moderate growth	Conflicts between social groups and moderate growth		
Trend in relative productivities North-South relations and relations between LDCs	Convergence			Divergence	
	A	B1	B2	B3	
Large growth of North-South economic exchanges					
Accentuation of divisions between North and South				C	
Partial fragmentation of the South following regional alignments with the developed country poles					D

¹ The fourth dimension concerning the internal dynamics of the various groups of developing societies has mainly been taken into account at the level of the regional analyses incorporated in the scenarios.

- the internal dynamics peculiar to developed societies;
- the internal dynamics specific to the different groups of developing societies.

In summary, the scenarios were arranged in four groups:

- the high-growth scenario (A);
- the moderate growth scenarios (B1, B2, B3);
- the North-South confrontation scenario (C);
- the protectionist scenario (D).

Each scenario was then analysed to identify the likely effects on the use of energy and on the agricultural and industrial sectors, as well as trade and capital flows.

From the scenarios a number of critical issues were derived, dealing with energy issues, national policies to come to terms with the new challenges, efforts to help the Third World develop further and new forms of international co-operation. These were then further specified into policy recommendations. One group of measures was aimed at facilitating development of the Third World. Another suggested that the discussion should begin on the effects of an ageing population in developed countries. Some demographers hold the view that the age structure of a population directly affects confidence in its own future. An ageing population in developed countries may have a greater negative effect on relations with developing countries than a larger population. Another recommendation deals with making international trade more transparent and stable by improving the organisational framework. An outcome of this was the creation of the World Trade Organisation in the mid-1990s.

Separate governments also undertake scenario planning. In 1992 the Dutch Centraal Plan Bureau, a think tank of the Dutch Government, published three scenarios relevant for the Netherlands (Centraal Plan Bureau, 1992a, 1992b). Here the focus was on what should change in the Dutch society and economy in order to keep its position as a major economic force.¹

The first scenario was called *Global Shift*, in which the centre of gravity moves to the Pacific Rim. Under this scenario there is a lot of technological development, entrepreneurial behaviour, inventiveness and incentives for innovation. The second scenario is labelled *Balanced Growth* and is characterised by economic growth in various parts of the world, combined with moves in the direction of sustainable economic development. In the third scenario, *European Renaissance*, technology develops less fast than in the Global Shift scenario, but still requires enormous investments. This leads to the need for economies of scale, with monopolistic tendencies and strategic alliances as a possible consequence.

For each of the scenarios the main issues for Dutch society and the Dutch economy are pinpointed. The study identifies two ways to deal with these issues. The first is to keep the main elements of the welfare state and combine these with elements of a so-called co-ordination perspective (the now famous Dutch Polder model). The second way is to strengthen the market perspective, which in time will mean reducing or giving up several elements of the present welfare state. There is no denying the fact that the discussion on which approach to choose is still going on, both inside politics and among the public at large.

Both examples of scenarios for the public sector clearly show how great is the impact of developments on a global level for individual countries and lower levels of government. There is the beginning of a tendency for municipal authorities in border areas to co-operate with one another. One example of this is the Aachen–Maastricht–Liège area, where the Belgian, German and Dutch borders coincide. Authorities work together and universities co-operate, and Maastricht Airport has been rechristened Maastricht–Aachen Airport. This may be a sign that alongside national interests cities are developing multinational interests as well.

3.4 *Five forces analysis in healthcare*

It is not uncommon to find that healthcare takes up around 10 per cent of GDP in many countries. This makes it one of the largest parts of the public sector, with a major impact on the economy. This sector also attracts lots of attention in most countries because it touches on people's health, one of the most basic needs, and many customers are not entirely satisfied with the service (quality, waiting lists, etc.). Also, costs seem to be constantly increasing. One might say healthcare is a sector that has a strategic problem, both at the national level and at the organisational level (hospitals, etc.). These problems seem to exist irrespective of the system in use in a country. In most European countries governments have a direct controlling influence in healthcare. So spending on healthcare is seen as a cost, rather than as a market that is expanding. It can be useful to think about healthcare as a market with suppliers and customers even if it is not operating as a 'free' competitive market.

A parallel can be drawn with other areas that were previously public sector and now are in the private sector (e.g. electricity, broadcasting, railways, telecommunications, etc.).

Porter's five forces analysis as described in *Exploring Corporate Strategy*, Section 3.4 can be used to shed light on some of the issues in healthcare.

3.4.1 *Threat of entry*

Currently one of the most effective barriers to entry in most countries is legislation. Most governments have a final say in whether or not a new hospital can be opened. A subtler way of entering a new market is to try to get patients from other countries. This is already happening in some countries where patients, because of waiting lists, etc., decide to get treatment on the other side of the border. If the insurance company agrees, a new competitor can enter the market without going through the bureaucratic procedure of establishing a

new hospital. In some cases, patients are prepared to go a long way to get treatment for rare diseases. A university hospital in Pamplona specialises in treatment for certain forms of cancer: patients come from countries as far away as Finland for cure and care. Besides the quality of the cure, the cost of a single room, with separate bathroom and sitting area as well as the possibility for a relative to stay over, is less than one-third of the rate for a bed in a four-person room in the Netherlands. Hospitals should not be too confident that new global competition of this type will not arrive, even under the present regulations.

Entry is not always on a large scale. Recently, *Het Financieële Dagblad* mentioned that a British pensioner is now buying his medicine through his cousin in Holland. The Dutch pharmacist who delivered the medicine has entered the British market, almost without knowing it. Rather than pay £400 per month, the pensioner now saves half of that amount by shopping abroad. If differences between countries exist in terms of prices, waiting lists, etc., and the distances can be overcome without too many problems (the Internet), the entry of new competitors may be not far away.

3.4.2 Bargaining power of buyers and suppliers

It is amazing that in a situation where hospitals have almost no money to pay nurses a decent salary, pharmaceutical companies make large profits, as do suppliers of medical equipment and beds, and medical specialists. It seems that money can be made in the so-called non-profit healthcare sector, but not by the organisation that ultimately takes care of the patient. The bargaining power of the hospital is apparently not big enough for it to get a slice of the pie that is going to other parts of the value chain.

The bargaining power of the suppliers is not reduced by other players such as insurance companies, which are paying the bill for the patient. Neither is the bargaining power of the government. In many countries governments try to contain the rise in expenses, but are not always successful. From a bargaining point of view this can be explained as follows. Where a government views healthcare as a major responsibility, it will have a bad bargaining position *vis-à-vis* profitable suppliers since democratic processes will require that in the end government will pick up the bill.

On the 'customer' side, we see that they are becoming more demanding, which also puts hospitals under more pressure to satisfy them. For patients, not only cure, but also care (comfort, service, etc.) is important. From recent discussions with some hospital managers the authors found that many of them still think of quality only in terms of techniques to cure the patient. Comfort is considered irrel-

evant. But governments are encouraging consumerism in public services, strengthening the bargaining power of buyers.

3.4.3 *Threat of substitutes*

Technological developments may lead to substitution of some of the services provided by the sector. New surgical techniques reduce the number of days a patient has to stay in hospital after an operation. Lower-cost hotel facilities may be used in some cases rather than far more expensive hospital beds. Diagnostic techniques may make possible a less drastic treatment in an early phase. In Section 3.2.4 some other technological developments were sketched that may lead to a reduction in the number of services rendered by the hospital.

3.4.4 *Competitive rivalry*

So long as the influence of government on the sector stays high, the level of competitive rivalry will not increase dramatically. For routine treatments patients may not be willing to travel long distances for nicer hospital rooms or more friendly nurses. But for more threatening ailments, this may change. Since patients are becoming more assertive and better informed, more rivalry will develop. Some (university) hospitals are already drawing up strategic plans to define their future competitive position. These are still early developments, but they will no doubt continue in the future. This may be even more the case when hospital management may expect more of a free market and less dominance by government. In the Netherlands, Nma, the watchdog against anti-competitive behaviour, decreed in September 1999 that agreements on fees between general practitioners, physiotherapists, dentists, veterinarians, etc., were illegal, since these would in future be seen as cartels. It may take time before there is true competition on price between such specialists, but the Nma statement is a clear signal that some of the cosy arrangements have to disappear. Since such actions will result in lower overall costs, the idea may also be adopted in other countries.

A recent publication from the Dutch consumer association made a detailed comparison of a number of hospitals in a region, looking at comfort of rooms, visiting hours, experiences of patients (cure and care), etc. Since these hospitals were within easy reach, consumers had much better information on which to choose the hospital to go to for a particular treatment. No doubt this will increase competition between hospitals.

In sum, the healthcare sector is still competitively not in a dynamic situation. The above five forces analysis indicates that there are already developments that hint at changes in the next decade. The

analysis also shows the conditions for the lack of competitive behaviour. If these conditions disappear, the situation will change fundamentally. Managers in the healthcare sector are advised to monitor their developments explicitly to avoid being surprised. Experiences in other parts of the public sector have shown that competition comes much quicker than expected.

3.5 *Strategic group analysis in MBA education in the Netherlands*

Strategic group analysis aims to identify organisations with similar strategic traits, that follow similar strategies or that compete on similar bases. In the public sector, management often does not think in terms of competition. We will use the higher education sector in the Netherlands as an example to illustrate the use of strategic group analysis. The reader should be aware that the types of institutions in countries can vary. In the UK, for instance, all polytechnics are now universities, whereas in the Netherlands the distinction is still very much intact. In the Netherlands the MBA degree is not yet founded in legislation, which means that any institution or individual can start an MBA course without legal barriers. In other countries the situation is different.

A useful way to identify strategic groups in MBA education is to use the geographic scope and the orientation of the education provided as the axes of the diagram, as in Exhibit 3.3.

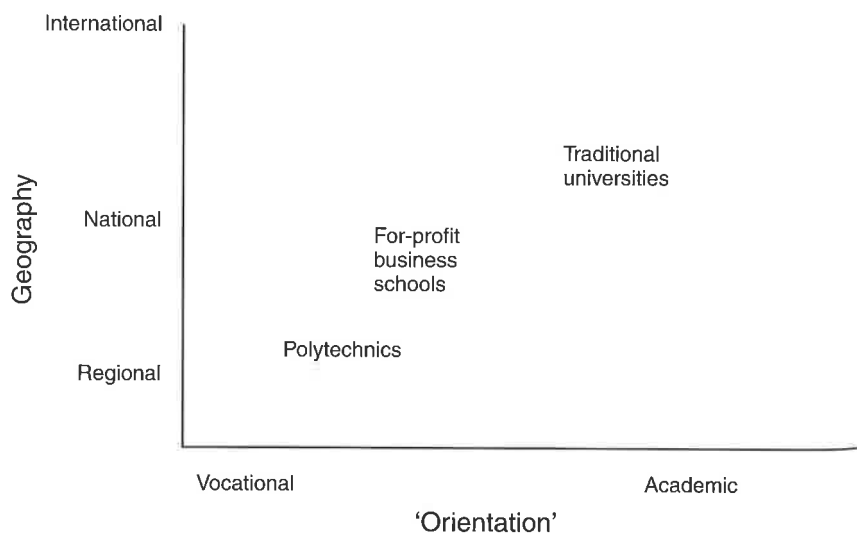


Exhibit 3.3 *Strategic groups in MBA education in the Netherlands*

The exhibit shows three kinds of institutions: traditional universities, for-profit business schools (FPBS) and polytechnics. Some traditional universities are centuries old, but others may have been established less than 40 years ago. A common characteristic is that they have a wide range of faculties, do research, attract students from all over the country, and provide education that is more academic than vocational. A number of the traditional universities have business schools that grant MBA degrees. FPBSs are relatively new, and provide MBA degrees only. Usually they are located close to the centre of the country. The students they attract are often managers who feel the need to broaden their perspective after several years' work experience. Many students have diplomas from a university or a polytechnic. The teaching is not as academic as in traditional universities, but often more academic than in polytechnics. Some of the schools already use the Internet as an integral part of the educational concept. The polytechnics (in the Netherlands named *HogeScholen*) often attract students from the region and provide education aimed more at application of theory than at developing conceptual thinking. Some of the polytechnics provide MBA degrees, in some cases in co-operation with universities from the UK.

The exhibit gives an indication of the direct competitors in MBA education. There is little competition between universities and polytechnics, since the types of training are quite different. Moreover, a university degree is generally valued more highly than one from a polytechnic. MBA education at FPBSs is generally more of the action learning type, which makes it attractive for practising managers. Several of these schools have recently received accreditation by the Dutch Validation Council.

The analysis can also give an insight into the barriers that prevent organisations moving from one group to another (they show the barriers *into* a group) (Exhibit 3.4). This does not necessarily mean that schools would like to move into other groups. For example, if the FPBSs tried to 'enter' the strategic group of traditional universities they would need to build up a reputation in research or innovation, which is not easy for the FPBSs. FPBSs may not be at all interested in doing research, since there would be high costs and little pay-off for the effort. Nor may they find it easy to attract the right faculty to initiate such moves.

Conversely, for traditional universities to move in the direction of FPBSs may not be possible since the faculty may have difficulty adopting the action learning mode and working with generally much older students. The image of a traditional academic institution may be difficult to shed. Remuneration levels may make it difficult to find the right kind of faculty, since they can make more money outside than inside the business school. Compared to FPBSs, decision making is

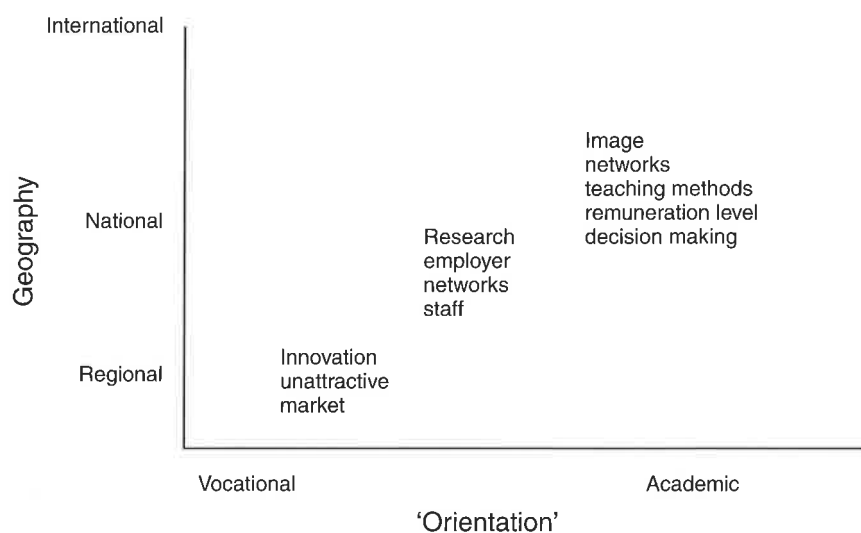


Exhibit 3.4 Strategic groups in MBA education in the Netherlands: mobility barriers

often time-consuming. When markets are changing quickly, this may be a serious drawback.

The positioning of the groups can give insight into what might be new competitive space (Exhibit 3.5), particularly if changes in the business environment are 'fuelling' changes in this 'industry' – particularly globalisation and information technology (see also Kim and

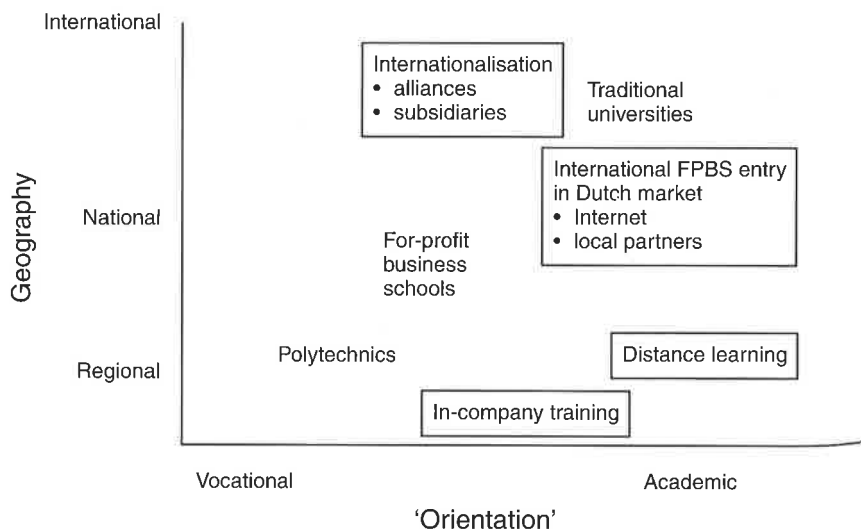


Exhibit 3.5 Strategic space in MBA education in the Netherlands

Mauborgne, 1999). One move could be for Dutch business schools to seek more international business. In the case of Bsn International, an FPBS, candidates from South Africa were coached by a faculty in the Netherlands in writing their dissertation. However, the reverse threat of international competitors entering the Dutch market is a major concern. Information and communication technology helps students study at their own place of work or at home, but also enables them to tap into an international network. So American or British schools could provide content over the Internet and local student support through partnerships with Dutch institutions. Finally, developing in-company programmes is also an option for further growth.

3.6 Summary

In this chapter we have briefly sketched some global developments that may affect public sector organisations. Often, the frame of mind is that such changes will not seriously affect the public sector or that legislation will take care of the issue. This is dangerous. Who would have thought some 15 years ago that one would not be able to watch a soccer game in the Premier League free of charge on the BBC or any other national public broadcaster? Certainly not managers in charge of then successful not-for-profit broadcasting organisations. Soccer on television was considered a public good that would always be available free of charge. This is no longer the case.

We have sketched how some techniques discussed in *Exploring Corporate Strategy* can be used to identify and analyse the impact of these global changes in the environment on public sector organisations. The PEST analysis is particularly helpful in identifying the global forces that have or will have an impact on the public sector. A number of global trends were briefly described. Scenarios are helpful to develop plausible views of possible futures by combining some of the most important trends from a PEST analysis. Two examples of public sector scenarios were given. The five forces analysis is useful to gain insight into the future structure of parts of the public sector. The analysis was applied to the healthcare sector and led to the conclusion that market forces will be felt more in future, and that organisations in that sector had better prepare strategies for the new context rather than try to block this development. Finally, strategic group analysis was applied to MBA education in the Netherlands. Three strategic groups and mobility barriers for each of the groups were identified, as was strategic space.

Even though these techniques were initially developed for companies, they can help public sector organisations better prepare for a future that will be drastically different from the past, even if one would like to think otherwise.

References

- Becker, G.S. (1999) 'How the Web is revolutionising learning', *Business Week*, 27 December.
- Brews, P.J. and Hunt, M.R. (1999) 'Learning to plan and planning to learn', *Strategic Management Journal*, **20** (10), October.
- Centraal Plan Bureau (1992a) *Nederland in drievoud*, Sdu Uitgeverij, The Hague.
- Centraal Plan Bureau (1992b) *Scanning the Future*, Sdu Uitgeverij, The Hague.
- Hawken, P., Ogilvy, J. and Schwartz, P. (1982) *Seven Tomorrows*, Toronto: Bantam Books.
- Heijden, K van der (1996) *Scenarios: The Art of Strategic Conversation*, Chichester: Wiley.
- Kim, W.C. and Mauborgne, R. (1999) 'Creating new marketpace', *Harvard Business Review*, Jan–Feb.
- Naisbitt, J. and Aburdene, P. (1990) *Megatrends 2000*, New York: Avon Books.
- OECD (1979) *Facing the Future: Mastering the Probable and Managing the Unpredictable*, Paris: OECD.
- Ryan, W.P. (1999) 'The new landscape for nonprofits', *Harvard Business Review*, Jan–Feb.

Note

- 1 The aim of developing the OECD scenarios was much wider: how to change the global social and economic fabric for future worldwide prosperity. This shows that in building scenarios it is of great importance to have a clear idea of the purpose of the scenario planning exercise.