22 An institutional view of process strategy in the public sector*

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Scholarly strategy process research goes on, perhaps more than ever, suggesting that there is something fundamental and deeply interesting and profound about how strategies are made, where they originate, and how the process of strategy-making impacts the performance of organizations. (Szulanski, Porac et al., 2005: xv)

In their 2005 compilation, The Strategy Process, Szulanski, Porac and Doz summarized the development of the process strategy field. They maintained that the field, though highly fragmented, has been held together by research choices around four theoretical issues: 1) the meaning of process, 2) the type of study, 3) the primary level of analysis, and 4) the locus of action. Past process strategy researchers emphasized emergence as process and detailed emergence via in-depth, intra-organizational case studies of strategic decision making, often at the top management team level. Current strategy researchers have chosen to view the strategy process as a more complex phenomenon, best studied at multiple levels of analysis with comparative cases or longitudinal analysis to capture a shifting locus of action.

This chapter is part of this newer strain of process strategy research. Strategy is conceptualized as being multidimensional, involving hot and cold issues as well as aligned and unaligned interests. The strategy process is also studied from multiple levels of analysis and via overtime qualitative (historical) and quantitative analysis in order to capture the shifting locus of action. However, unlike much strategy process research, our work is devoted to theorizing and testing concepts about process strategy in the public sector. In the wake of Enron, Parmalat, Lehman Brothers and the broader economic shocks experienced by the financial system, there has been a call by practitioners and strategists alike for more attention to strategy in the public sector (Collins, 2001; Dobbin and Baum, 2000; Economist, 2009). The public sector refers to the domain occupied by governmental, non-governmental, and not-for-profit organizations (Vago, 1994). The public sector also includes activities of private organizations that are formally regulated by a governmental organization (Landy and
Levin, 1995; Perkmann and Spicer, 2009). While public sector organizations and their strategy processes have many features that are consistent with private sector organizations and their strategy processes, public sector organizations also differ substantially in a few. Strategy in these organizations is normally derived first from its network of stakeholders and external controlling agencies and then from its top management team – not the other way around. In addition, these public sector organization strategies rely heavily on formal legitimacy. At the very least, then, the strategy process in the public sector offers researchers a more extreme case of power dynamics (March and Olsen, 1989; Stryker, 2000; Wilson, 1989).

The perspective on which we rely to make our contributions to process strategy research is institutional theory. In keeping with process strategy research, institutional theory emphasizes the emergence of threads of idea, belief, and action. Institutional theory also works at multiple levels of analysis and argues that the process and outcomes are often unintended, not involving either efficiency or technical criteria. However, as some process strategy researchers have begun to realize (Farjoun, 2002), institutional theory has a set of mechanisms that appear to work well with notions of strategy emergence, such as the formulation of new strategies via contested logics in the field (Lounsbury, 2002; Seo and Creed, 2002) and the adoption of new strategies due to coercive, normative, and mimetic forces (Mizruchi and Fein, 1999; Ruef and Scott, 1998). Institutional theory seems particularly useful as a means of understanding public sector strategy, because, by definition, such sectors are more institutional in nature than private sector ones (Meyer and Scott, 1983; Scott, 2001).

Yet we do simply transport institutional theory into the process strategy domain. We also try to offer insights and evidence to help address some critical, unsolved problems within institutional theory. One is how inter-organizational mechanisms sort out competing field-level logics (Marquis and Lounsbury, 2007). Another is how boundary objects, like policy statements, offer points of reference for change in the institutional system (Bechky, 2003). Yet another is how social movements are reflected in new policy initiatives (Hoffman and Bertels, 2009). These issues are explored using our long-term research on water law and regulation (Jennings and Zandbergen, 1995; Jennings et al., 2002, 2005; Schulz et al., 2008).

AN INSTITUTIONAL MODEL OF PROCESS STRATEGY

Institutional theory does not have a single agreed-upon set of arguments about the formation and adoption of strategy. Nevertheless, there is some
agreement on terms, levels of analysis, potential loci of action, and mechanism involved in institutionalization (Scott, 2001). We describe a generic institutional model of process strategy, applicable in multiple sectors, then adapt and refine this model to describe process strategy in the public sector.

From an institutional perspective, strategy refers to what organizational members construe an organization’s strategy to be. This means that the label ‘strategy’ is an important signifier. In addition, strategy is the set of related practices (repertoires, rites, underlying activities) that are part of the firm’s formally recognized plan (Barry and Elmes, 1997). Thus, strategy for an institutionalist fits with Mintzberg’s famous dictum: strategy is both plan and action, intended and unintended (Mintzberg, 1987).

The plan and its processes are embedded in a much broader social and cultural milieu. This broader milieu can be viewed as comprising two groups of organizations: 1) the field of relevant organizations, and 2) the task environment around the focal organization. The field involves all organizations dependent on similar social and economic forces for economic survival and legitimacy, which includes populations, industries, networks, and communities or organizations (Powell and DiMaggio, 1991). The field is also held together by deeper schemas of values and acceptable patterns of action, what Friedland and Alford (1991) call ‘logics’. The task environment involves the buyers, suppliers, competitors, governmental units, and other organizations with which the firm has interaction (Scott and Davis, 2005). Unlike the field, the operation of the task environment involves much more explicit power process based on the resource dependencies among firms. The ‘mezzo’ level encompasses not only the task environment but also the linkages from these actors to the field and from the mezzo actors down into their focal organizations; that is, the cross-level linkages depicted in Figure 22.1

From an institutional view, ‘process strategy’ (not simply ‘strategy’) entails not only the focal firm’s strategy but the related sets of strategies pursued by organizations around the firm (the linked stars in Figure 22.1). A strategy is created by a key field member and then adopted by some, but not all, field members, leading to differences in their success (Martens et al., 2007). The strategy of diversification was first adopted by centrally networked, powerful Fortune 500 firms, and then diffused across key industries in the economy, especially manufacturing, but not in resource and utilities (Chandler, 1980). The diffusion accounted for the success of these firms in the 1930–1960 era, relative to competitors who were not as diverse and multidivisional (Fligstein, 1990).

This diffusion process is rarely smooth because it is based on the competitive positioning and counter-positioning of firms, each trying to garner
social legitimacy and/or economic success (Scott et al., 2000; Leblebici et al., 1991). The diversification strategy and multidivisional form diffused in various industries because of highly networked actors, who had some economic similarities but, more importantly, shared similar social and intellectual circles (Palmer et al., 1993). In addition, there is research that shows that clusters or niches of adopting firms must jointly enact strategy in order to make it work well. In their study of Scottish knitwear, Porac et al. (1995) show that the producers of wool and the crafters of sweaters form product-oriented groups, controlling output and maintaining the brand, while allowing each subgroup to jockey for more market share in this closed community. A fundamental translation has occurred in the meaning of apparel manufacturing when one discusses ‘Scottish knitwear’: this interpretation helps build the market system (not the reverse), and subsequent knitwear designs must build off of this understanding. In Figure 22.1’s terms, the cluster of networked organizations adopting and promoting a strategy in the first time period must endure until the second if the strategy is to be successful.

In fact, each focal firm in an interorganizational network must interpret and translate a strategy into its own terms (Sahlin and Wedlin, 2008). As Rao et al. (2003) have shown, this re-mixing tends to draw on new cultural categories and sets of understanding, potentially creating a new strategy in the process, as nouvelle cuisine did with traditional French
cooking. Part of the strategy-making process is building narratives that cobble together these pieces (i.e., use ‘bricolage’) in convincing ways for those who provide tangible and intangible resources for the firm (Gioia and Thomas, 1996; Lounsbury and Glynn, 2001; Martens et al., 2007). This makes organizational leaders and social groups in the focal firm important in the bricolage effort (Maguire et al., 2004). These actors are depicted as ‘L’ within the focal firm in Figure 22.1. It also implies that each star in Figure 22.1 is a focal firm-specific version of a strategy and not completely equivalent.

Process Strategy in the Public Sector

The unique aspects of process strategy in the public sector can be understood by examining the institutional model in Figure 22.1 vertically and horizontally. From a vertical, top-down perspective, all organizations in the public sector have been shown to rely more heavily on legitimacy from the State (‘S’) than they do in the private sector (DiMaggio and Powell, 1983; Oliver, 1991). The dependence on the State, whether at the regional, national or international level, means that the type of strategies adopted must, first and foremost, be acceptable to any oversight agencies from the State. For example, hospitals adopted more budget-based planning starting in the 1980s because State agencies required better accounting practices during this newer era, even though accounting practices had always been important for the technical operation of hospitals as very expensive physical plants (Scott et al., 2000).

At the field and organizational level, there is a great deal of interpretation and translation of State policies, but often in quite a different way than among private sector organizations. Research has shown that organizations in this sector tend to loosely couple their core practices and to adopt strategies symbolically, while pursuing really important strategies or practices elsewhere (Dobbin and Sutton, 1998; Edelman, 1992). Thus, in Figure 22.1, we see the core of the focal organization (‘Core’) is normally buffered by its periphery from its task environment (March and Olsen, 1989; Meyer and Rowan, 1977).

Recent institutional work on public sector organizations has also demonstrated significant ‘push-back’ from the focal firm on the government-controlled field. In Figure 22.1, this push-back is depicted by the two-headed arrow from the focal firm to the mezzo and field levels as well as by the relationship among the organizations that negotiate strategy and policy at the mezzo level. For instance, laws governing practices like tax breaks for child care or civil rights in the workplace are re-interpreted significantly by interested and mobilized actors at the mezzo level (Kelly,
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2003; Pedriana and Stryker, 2004). Indeed, at key junctures in economic development, regulations itself derives from competing models of business practice fought out among financiers, the government, and shareholders at the mezzo and field levels (North, 1990; Dobbin and Dowd, 2000; Selznick, 1949).

This implies that the critical level of analysis and locus action in the public sector is the mezzo one where policies are formed and interpreted in networks (Dobbin and Baum, 2000). In traditional terms within policy theory, these are the overarching policies in the system that incorporate political objectives, interests, and techniques, and guide governmental bodies at the micro level (Landy and Levin, 1995). From an institutional theory standpoint, these policies include the formal and informal policies that are actually pursued in practice, something we term ‘policy initiatives’ (see ‘Policy’ in Figure 22.1) in order to distinguish it from policies as institutional logics (Hoffman and Vantresca, 2002). Business models fostered by governmental policy, law, and action can thus be construed roughly as extensions of policy initiatives (Dobbin and Dowd, 2000; Perkmann and Spicer, 2009). It is these policy initiatives in the interorganizational networks that form the core of the public sector strategy process.

From a horizontal perspective, the enactment of the policies at one point in time normally leads to different but related policies at a second point in time (see the horizontal time axis in Figure 22.1). Unlike the private sector, the adopted set of strategies (i.e., policy initiatives) tends to be re-cast more often in order to maintain political mandates and track with current issues. The deeper meaning of the initiatives remains, even if the label changes. For example, the notion of cooperation remains while labels like ‘stewardship’ are replaced by ‘partnership’. Yet the label helps differentiate the policy and attract more adherents while not losing the cluster of supporting organizations.

The outcome or effects of these policies over time is more complex than in the private sector. First, the outcome is based on mandates and missions, which tend to be broad and thus require sequential attention to performance measures (March and Olsen, 1989). Second, the outcomes are negotiated by the policy cluster, in accordance with the time period and logic (Fligstein, 1990; Thornton, 2004). Third, the outcomes adjust for prior performance and mission. While systematic study of performance adjustment models in the public sector is not known to us, detailed case work has shown that strong mission-type agencies are likely to keep their strategies as part of their focus, regardless of results, while weaker mission agencies are likely to be issue driven, and thus be perceived as achieving some target, even if not the original one (Espeland, 1998; Wilson, 1989).
APPLYING AND EXTENDING THE INSTITUTIONAL MODEL

To elaborate these arguments and demonstrate how a reader might use our model to do research, we examine public sector process strategy in one policy domain: water management. Water management has been studied by other institutional theorists (e.g., Espeland, 1998; Russo, 2001; Selznick, 1949), for it enables economic and social growth in regions and typically involves large sets of complex organizations (De Villiers, 2000). We concentrate on a twelve year period (1985–1997), during which the policy of the environmental agency, the British Columbia Ministry of Environment, Land and Parks (BCMOELP), was transformed (Jennings et al., 2002). We also draw on our more general knowledge of water law and its evolution from 1900–2005 (Jennings et al., 2005).

Policy Initiatives in BC Water Management

In the institutional approach, policy initiatives depend on the overarching logic in the field. The logic provides the taken-for-granted understanding that frames policy initiatives. The initiatives themselves are negotiated among the cluster of key actors at the mezzo level, but in light of these logics. For instance, a legalistic logic for handling environment management frames discussion around a variety of possible related policy initiatives, including command-and-control rigid enforcement regimes and gradual compliance regimes. Then it is up to the set of actors at the mezzo level to work out the specific policies and their applications. Institutional leaders at the mezzo level are particularly important for adding in their own interpretations and selecting among possible initiatives (e.g., see Bansal, 2005; Zan, 2005).

Turning to our case at hand, research has shown that the environmental management logic at work in the late 1980s in the US was regulatory (legalistic) but then evolved a logic based on corporate social responsibility (CSR) (stewardship) logic (Hoffman, 1997). Work by Schofer and Hironaka (2005) and Frank (1997) has shown that this switch in logics occurred in several nations; Harrison recorded a similar shift for western Canada, where the regulatory ideology moved from ‘command and control’ to ‘cooperation’ (Harrison, 1999). Hence, we expect a regulatory logic to exist in BC water management in the late 1980s, followed by a CSR–stewardship logic in the 1990s.

The organizational actors involved in interpreting and applying these logics in the BC water management system were, first and foremost, the BCMOELP, whose mandate was water management. In addition,
there were the related sets of policy organizations in the government, especially the Fraser Basin Management Program (FBMP), and other Environmental non Governmental Organizations (ENGOs), notably the West Coast Environmental Law (WCEL) Association (Jennings et al., 2002). Finally, the regulated actors and their associations were part of the negotiated response system, as they are in most regulatory systems (Hawkins, 1984, 2002).

The policies pursued by this group of actors in the cluster formed around the BCMOELP in the water management system are shown in Table 22.1. The table contains the archival and interview materials involving the actors. Following on Hoffman (1997) and Thornton (2004) key events and power shifts around the Ministry were used to demarcate policy eras.

1985–1988 was a period of opposing forces, some for the status-quo and others for reform. Two conservative governments were elected during the time period, but water management bureaucrats and scientists also conducted several large studies in the late 1970s and early 1980s that showed drastic declines in local water quality (Dorsey, 1991). As a result, new water-related laws, in particular the Waste Management Act (1983) and the Pesticides Control Act (1986), were put in place. This reformist approach was taken in one of the most traditional and intractable industries, pulp and paper (Krahn, 1998). There a policy of education for two years followed by a six year period of increasing enforcement was formally instituted. Indeed, a glance at the Deputy Minister’s year-end message about Ministry initiatives shows the Ministry to be quite interested still in promoting the public’s use of natural resources (wildlife, fisheries, recreation areas) along with devoting funds to scientific study of water and diffusion of water quality objectives (BCMOELP, 1984/85–86/87). Hence, the emergent policy initiatives in this three year period appear to be ‘Educate and gradually regulate’ (Policy A in Table 22.1).

In 1988 and 1989 a switch is noticeable due to unforeseen events: the Nestucca oil spill on the West Coast of Vancouver Island and, not long after, the Exxon Valdez spill in nearby Alaska. Both were discussed in the opening message of the annual reports by the Deputy Minister. The Ministry created two task forces, one on environment and economics, and another on solid waste (BCMOELP, 1989/90: 9). Land and Parks was split out of the Ministry of Environment, ostensibly to separate recreation and resource usage from monitoring and enforcement. In pulp and paper, education also ended and enforcement began (Krahn, 1998). In 1991, the Deputy Minister reflected that ‘certain program sections grew into full fledged branches, and out of necessity, certain regulations and activities to enforce them were made stronger and tougher’ (BCMOELP, 1990/91: 11). In a comprehensive interview about water policy, management, and
enforcement, the chief conservation officer said that during this three year period ‘we were running a “Blitzkrieg”.’ Such actions were made possible because the conservative government was discredited in late 1989 by scandal. Thus, ‘Regulate and enforce’ best describes the emergent policy initiatives covering early 1988 to early 1991 (Policy B in Table 22.1).

In the spring of 1991 a new, more progressive government (the NDP) took over. The new government publicly pledged itself to a long-term vision for environmental stewardship (Blake, 1996; Dyck, 1995). Land and Parks was re-incorporated in the Ministry of the Environment, making it again BCMOELP, and long-term planning began (BCMOLP, 1991/92: 15). Several strategic policy initiatives were released: ‘Environment 2001—Strategic Directions for British Columbia’, the ‘Protected Areas Strategy’ and the ‘Provincial Clean Area Strategy’. Equivalently broad water policies were not developed, though there were water-related initiatives in ‘Environment 2001’ and in the ‘Protected Areas Strategy’. Instead, regional stewardship and consultation initiatives in water management were pursued under the rubric of ‘partnership’. The most notable example was the FBMP, which was designed to coordinate water quality objectives, assessment, and management, and aid ministry enforcement for the Lower Fraser Basin, the most populated area of BC. All in all, this set of emergent policy initiatives can be labeled as ‘Partner, Please’ (Policy C in Table 22.1).

The period following this planning was highly tumultuous. In 1993/94 and 1994/95 the Forest Practice Code was developed out of the Protected Areas Strategy, with great protest by corporations and rural communities, creating such conflict that one author has called it ‘The War of the Woods’ (Zietsma et al., 2002). In water management, this contestation was apparent among the policy initiatives pursued. In the first State of the Environment Report (1994) and in the ‘Deputy Minister’s Message’ in the annual report, the success of enforcing pulp and paper regulations and the need for compliance with water quality objectives were both highlighted. At the same time, there was a continued claim that planning, partnership, and cooperation were needed to achieve these ends (BCMOLP, 1993/94: 8). This tension between enforcement and cooperation was aptly put by one officer, who was confused about her roles: ‘are we biologists or police?’ Hence, we labelled this set of policies ‘Cooperate or else’ (Policy D in Table 22.1).

The Effects of the Emergent Water Policies

Process strategy models are clear that strategy’s effects, like strategy itself, are emergent and complex (Szulanski et al., 2005). The effects cross
<table>
<thead>
<tr>
<th>Admin. Year</th>
<th>Relevant historical event</th>
<th>Key industry reports</th>
<th>Agency annual report</th>
<th>Agency interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985/86</td>
<td>SOCRED Bill Bennett in third Term. Recession starts to end, more serious action on pollution issues and waste occurs (Rankin and Finkle, 1983)</td>
<td>A: ‘Educate and gradually regulate’ policy</td>
<td>Focus is on technical management; first joint Federal and provincial flood management and fisheries systems</td>
<td>Period for enactment and development of water regulations Chief CO: we ‘needed to do something.’ (1994)</td>
</tr>
<tr>
<td>1986/87</td>
<td>Pesticides Control Act (1986); SOCRED Bill Vander Zalm elected; rule of law platform (Blake, 1996)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987/88</td>
<td>Env. Canada, DFO, BCMOELP initiative on P&amp;P</td>
<td>B: ‘Regulate and enforce’ policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>D: Exxon Valdez spill and local Nestucca spill; Environmental Protection Act adopted (CEPA, 1988)</td>
<td>Deputy Minister discusses Valdez and need for clean-up in LFB Canadian adopted; FRAP</td>
<td>Chief CO: ‘During this time we were running a “Blitzkrieg”’ (1994) Org: ‘We had to spend the money, even if it wasn’t scientifically justified’ (1994)</td>
</tr>
<tr>
<td>1989/90</td>
<td>Battle over pulp and paper combining forest and water interests; Spring 1989 march for environment</td>
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</tr>
</tbody>
</table>

**Table 22.1 Emergent water management policies in BC, 1985–1997**
Table 22.1 (continued)

<table>
<thead>
<tr>
<th>Admin. Year</th>
<th>Relevant historical event</th>
<th>Key industry reports</th>
<th>Agency annual report</th>
<th>Agency interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990/91</td>
<td>SOCRED Scandal; battle over P&amp;P continues; env. legislation squelched (Dyck, 1995); SOCRED premier resigns</td>
<td></td>
<td>Spills, pulp and paper, lots of waste initiatives, plus the clean up of Expo 1986 sites</td>
<td></td>
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<tr>
<td>1991/92</td>
<td>NDP Elected. NDP initiatives based on partnerships and alliances in govt. (Blake, 1996; Dyck, 1995).</td>
<td>K: 1992 P&amp;P code finally in place and working 5 Yr FBMP program</td>
<td>Development of protected parks and Forest Practice discussed. Partnership and alliances 5 Yr FBMP program</td>
<td>Senior CO: ‘Our issue was developing new regulations and approaches’ (1996)</td>
</tr>
<tr>
<td>1992/93</td>
<td>Press discusses issues over Forest Practice Code (Vancouver Sun).</td>
<td></td>
<td></td>
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<tr>
<td>1993/94</td>
<td>Forest companies and Green Peace still battle on; the water maintaining Pacific fisheries is the issue</td>
<td>Z: ‘War of the Woods’ heats up; Forest Alliance unravels H: In fish, dykes, wells, agri. are issues</td>
<td>Dep. Min. applauds P&amp;P reduction; discusses broader programs. Water becomes secondary issue AR combined for 2 years:</td>
<td>Officer: Are we ‘biologists or police?’ (1996: 2) Org: ‘They wanted cooperation but…’ (1999)</td>
</tr>
<tr>
<td>1994/95</td>
<td>NDP Scandal; agriculture’s contamination of groundwater. NDP Premier resigns</td>
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<tr>
<td>1995/96</td>
<td>NDP re-elected with new Premier, Glenn Clarke</td>
<td>K: FRAP &amp; P&amp;P code final effects</td>
<td>‘cooperation and stewardship’</td>
<td></td>
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</tbody>
</table>
Notes:

Codes & Acronyms

<table>
<thead>
<tr>
<th>Code</th>
<th>Reference</th>
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<tbody>
<tr>
<td>D</td>
<td>Dorsey (1976, 1991)</td>
</tr>
<tr>
<td>H</td>
<td>Healey (1999)</td>
</tr>
<tr>
<td>K</td>
<td>Krahn (1998)</td>
</tr>
<tr>
<td>Z</td>
<td>Zietsma et al. (2002)</td>
</tr>
<tr>
<td>AR</td>
<td>Annual Report (of BCMOELP and its various incarnations)</td>
</tr>
<tr>
<td>BCMOELP</td>
<td>British Columbia Ministry of Environment, Land and Parks – BC’s main environmental agency</td>
</tr>
<tr>
<td>CEPA</td>
<td>Canadian Environmental Protection Act</td>
</tr>
<tr>
<td>CO</td>
<td>Conservation Officer</td>
</tr>
<tr>
<td>DFO</td>
<td>Department of Fisheries and Oceans</td>
</tr>
<tr>
<td>Dep. Min.</td>
<td>Deputy Minister</td>
</tr>
<tr>
<td>Env. Canada</td>
<td>Environment Canada – Canada’s main environmental agency</td>
</tr>
<tr>
<td>FBMP</td>
<td>Fraser Basin Management Program</td>
</tr>
<tr>
<td>FRAP</td>
<td>Fraser River Action Plan</td>
</tr>
<tr>
<td>FREMP</td>
<td>Fraser River Estuary Management Program</td>
</tr>
<tr>
<td>NDP</td>
<td>New Democratic Party</td>
</tr>
<tr>
<td>Org.</td>
<td>Organization (interview)</td>
</tr>
<tr>
<td>P&amp;P</td>
<td>Pulp and paper</td>
</tr>
<tr>
<td>SOCRED</td>
<td>Social Credit Party</td>
</tr>
<tr>
<td>WMA</td>
<td>Waste Management Act</td>
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</tbody>
</table>
levels, linking the macro to the micro (Burgelman, 1996; Ocasio and Joseph, 2005), and the effects include intended and unintended outcomes (Mintzberg, 1987, 1994). Institutional theory’s view of effects is in keeping with process strategy’s, particularly where unintended effects are concerned (e.g., Selznick, 1949; Gouldner, 1954; Meyer and Rowan, 1977).

These specific effects of the emergent policy initiatives can be measured in several ways, for example in terms of internal efficiency changes, budget fluctuations, or switches in mandates (Vago, 1994). In the case of water management, we concentrate on one of the agency’s own major indicators of performance: its level of regulatory enforcement. There are three outcomes of interest: referrals, charges, and penalties (BCMOELP Interview #1, 1996; Hawkins, 1984). These represent inputs, throughputs, and outputs of the enforcement system. In each annual report enforcement activities are discussed at length, often near the end of the report, as an assessment of performance (BCMOELP, 1985–1997).

Below, we model the impact of the four different emergent policy initiatives (A–D in Table 22.1) on each outcome, with ‘Partner, please’ as the omitted baseline category. Controls are included for standard factors that affect agency performance (Hawkins, 1984; Vago, 1994): the transition in the government (‘lame duck periods’), agency load, and agency resources. We have also included controls for potential competing explanation of interorganizational effects: the attention given to the issue by a key policy actor (March and Olsen, 1989; Sabatier, 1975). In this case, we focus on the levels of attention from the environment ministry and the regional media to water as an issue (see Jennings et al., 2002). Figure 22.2 displays their interest level, compared with those of an important ENGO member and a large important regulated firm. All variables are lagged back one month. Stationary time series are used to examine interval level changes in number of referrals per month (i.e., differences) and negative binomials are used to examine the number of charges and penalties per month (i.e., counts). These are standard analyses for such data and designs, according to Greene (2003). Further details on these measures and analyses are available from the authors.

Model 1 of Table 22.2 shows that policies of educate then regulate and of regulate and enforce both lead to lower levels of referrals, but tend to lead to higher levels of charges and/or penalties than the omitted baseline emergent policy of ‘Partner, please’ and the included emergent policy of ‘Cooperate or else’. One would expect that policies of command and control (regulatory policies) would lead to higher levels of legal outcomes (charges and penalties), so this is not surprising. Indeed, such expected results are comforting.

The more surprising, emergent strategy type of result generated by
taking our institutional approach is that ‘Cooperate or else’ leads to higher levels of referrals and to reasonable levels of charges compared with the omitted category and relative to either regulatory logic-type policies. In other words, contrary to what some policy analysts would argue (e.g., Harrison, 1999; King and Lenox, 2000), the emergent policy of cooperation between the government ministry and local regulated organizations increased the amount of review of local water management activities and also put more pressure on these firms to comply or face consequences. From an institutional theory standpoint, this means that the normative and informal coercive pressure among the actors in the system that are involved in the ‘Cooperate or else’ policies has increased to the point that the actors are now behaving in a way that they might under more formal regulatory systems.

A second surprising finding from taking this approach is that while several controls work (e.g., for lame duck period and agency load), the alternative explanation of issue-interest group attention does not explain much variance. The agency’s and media’s attention do not have net positive effects on enforcement rates (Models 1–3). In fact, media attention is negatively related to referrals and charges. Why? In part, because the media’s attention tends to peak only occasionally, meaning most rates are not related to monthly variations in rates. In addition, in our sample, this peak came mid-way through the regulatory period. As referrals, charges, and penalties gradually increased in the latter years, it meant the decline in interest was negatively related, on average, to these enforcement rates. Clearly, emergence of an identifiable policy became more important than
just having interorganizational groups temporarily mobilized around that policy.

**DISCUSSION AND DIRECTIONS FOR FUTURE RESEARCH**

Returning to process strategy more generally, we can now assess some of the contributions of an institutional approach, especially for examination of strategy in the public sector. Table 22.3 contains a synopsis of the major

<table>
<thead>
<tr>
<th></th>
<th>Model 3: Referrals (stn. time series)</th>
<th>Model 1: Charges (neg. bin.)</th>
<th>Model 2: Penalties (neg. bin.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>141.689***</td>
<td>4.112***</td>
<td>-2.593*</td>
</tr>
<tr>
<td>Govt. in transition</td>
<td>-17.551**</td>
<td>-.288†</td>
<td>0.089</td>
</tr>
<tr>
<td>Agency load</td>
<td>-24.796†</td>
<td>-1.841**</td>
<td>1.340</td>
</tr>
<tr>
<td>Agency resources</td>
<td>4.507</td>
<td>.262*</td>
<td>.604**</td>
</tr>
<tr>
<td>Agency attention</td>
<td>-1.109</td>
<td>-.065</td>
<td>.045</td>
</tr>
<tr>
<td>Media attention</td>
<td>-10.592*</td>
<td>-.594**</td>
<td>.436</td>
</tr>
<tr>
<td>Grade.</td>
<td>(5.751)</td>
<td>(.191)</td>
<td>(.364)</td>
</tr>
<tr>
<td>Policy: educate, grad. reg.</td>
<td>-44.779***</td>
<td>.455†</td>
<td>.783</td>
</tr>
<tr>
<td>Policy: regulate and enforce</td>
<td>-32.766***</td>
<td>.207</td>
<td>1.959***</td>
</tr>
<tr>
<td>Policy: cooperate or else</td>
<td>33.253**</td>
<td>1.296*</td>
<td>-630</td>
</tr>
<tr>
<td>Overall $F$</td>
<td>24.88***</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-357.853***</td>
<td>-175.744***</td>
<td>*</td>
</tr>
<tr>
<td>Number of months</td>
<td>105</td>
<td>124</td>
<td>138</td>
</tr>
<tr>
<td>(Number of cases)</td>
<td>(11,461)</td>
<td>(931)</td>
<td>(145)</td>
</tr>
</tbody>
</table>

$p = † ≤ .10, * ≤ .05, ** ≤ .01, *** ≤ .001; one-tailed t-test for directional hypotheses.$
dimensions tying together process strategy today, discussed by Szulanski et al. (2005). We will try to identify the differences as well as discuss each dimension. To avoid creating a 'strawman' when setting up our contrast, we will rely on what seem to be core ideas in the most current process strategy research on private sector firms (e.g., Burgelman, 1996; Farjoun, 2002; Labianca and Fairbank, 2005; Regner, 2005), rather than just more traditional work (e.g., Mintzberg, 1987, 1994; Grant, 2003). We also believe that many of the contrasts are more a matter of degree than absolute.

In the case of the concept of *strategy*, the institutional view still

Table 22.3  *A comparison of private versus public sector process strategy research*

<table>
<thead>
<tr>
<th>Theoretical elements</th>
<th>Private sector</th>
<th>Public sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Planned and recognized strategy along with unplanned, emergent strategy</td>
<td>Emergent policy initiatives, including the formal policies and brokered policy used in practice</td>
</tr>
<tr>
<td>‘Strategists’</td>
<td>TMT and managers at various levels in organization who affect key choices</td>
<td>Disembodied ‘agency’ loosely cohering around organizations and leaders</td>
</tr>
<tr>
<td>Objectives</td>
<td>Assigned or imported from board or field, often via TMT</td>
<td>Stakeholder mandates and interest realization</td>
</tr>
<tr>
<td>Organization</td>
<td>Private firm</td>
<td>Interorganizational networks enmeshing agency or NGO</td>
</tr>
<tr>
<td>Environments</td>
<td>Interactive macro–micro environments</td>
<td>Mezzo level and its connection to macro and micro levels</td>
</tr>
<tr>
<td>Key processes</td>
<td>Operations vs. administration across roles and functions; path of firm prior investments; learning</td>
<td>Interpretation and translation of field policy; communication and sensemaking; building of support</td>
</tr>
<tr>
<td>Intended outcomes</td>
<td>Partial adaptation and survival in changing environments</td>
<td>Building and maintaining legitimacy; changes in mandate, regulatory policy, and key personnel</td>
</tr>
<tr>
<td>Unintended outcomes</td>
<td>Ever moving performance targets and permanently failing organizations</td>
<td>Goal displacement and problem embodiment</td>
</tr>
</tbody>
</table>

TMT = top management team.
incorporates the private sector process approach, that is, the focal organization’s emergent strategy is an object of study. Yet the institutional approach broadens it by including whatever current policy and related practices (implemented initiatives) are guiding the network of organizational actors. Institutional theory also narrows the construct of strategy. Public sector strategy requires legitimation from several actors, and ultimately the State. Thus, the policy initiatives (public sector strategies) are those in the subset that have gradually emerged and endured (Lounsbury and Glynn, 2001). In water management, these policies lasted between two and four years. Yet many private sector firm strategies, especially those in small start-up firms in competitive markets, change more rapidly (Martens et al., 2007).

The meaning of ‘strategists’ also differs in private versus public sector process strategy research. Mintzberg (1987, 1994) was instrumental in persuading the field that the strategists and strategy were inseparable in a deep way. Recent work has explored cognitive schema and emotional process as dynamic capabilities affecting strategy formulation (Huy, 2005), pushing this intra-subjective link even deeper. The institutional approach seeks to put the strategists in context and not valorize them as primary sources of action. Instead, they are viewed as carriers and interpreters of field-level strategy; this is particularly true of strategists in the public sector. The members of the public sector are frequently searching for the next motivating concept or ideal, meaning many members must be involved in trying to formulate policies that can get traction – that is, ‘hot’ policies. These actors are likely to come from different organizations, such as ENGO, consulting firms, and other government agencies, as well as from different levels in these organizations (Hoffman and Bertels, 2009). In addition to these ‘strategists’, there are actors who have less directly observable access to rule creation and interpretation. Some are legislators on powerful committees; others are judges in national courts. These actors shape policy by setting up the rules and regulations underpinning it (March and Olsen, 1989; North, 1990; Schulz et al., 2008).

The objectives of the strategists and their strategies differ less in the process strategy and institutional approaches. In current strategy process research, objectives are often imported or adopted via some form of consensus, otherwise resistance will be created. The same is true in the public sector according to institutional theory. A difference is that public sector objectives must directly involve mandates from the field and State. For instance, in the private sector, an agreed upon objective among top managers may be to ‘become a leader in innovation’ even though this may not fit with the opinion of its widely dispersed, weakened shareholders. But in the public sector, policy initiatives like ‘cleaning up our polluted
environment’ must build a mandate – in this case, appealing to the broad base of voters rather than specific corporate interests.

The organization and its environments, two highly related but separable dimensions, show a sharper contrast between the two perspectives on process strategy. In new process research, the macro environment is interpreted by some as the task environment around the firm and by others as the field (Ocasio and Joseph, 2005), and the micro environment ranges from the units with the firm down to intra-individual processes (Huy, 2005). In the case of the institutional approach, the main environment is at the mezzo level. Highly cognitive and subjective processes are considered important, but only collectively; that is, as an understanding among clustered organizations, one that might lead to a new translation or development of a new policy initiative (Marquis and Lounsbury, 2007).

In terms of key processes, the process strategy and institutional approach are more similar than different. Over the years, dozens of processes have been identified by each. For instance in the Handbook for Process Strategy, Ocasio and Joseph (2005) have boiled the relevant firm-level ones down to operations and administration, distributed around roles and functions at different levels in the firm. This distinction builds off work from Burgelman (1996) and harkens back to March and Simon (1958). Process theorises taking a more political or critical approach (e.g., Pettigrew et al., 2002) add in the importance of power. Power dynamics involve the top management team, but also key resources and stakeholders (Chakravarthy and White, 2006). An institutional approach to process strategy in the public sector is quite similar to critical theory in this regard, emphasizing resource mobilization as being critical. Nevertheless, institutionalists also give primacy to translation, interpretation, sensemaking, and communication in the public sector as a means of understanding the strategy of an agency, NGO or other public organization (Sahlin and Wedlin, 2008). As Weber noted many years ago (Weber, 1919/1947), in public sector bureaucracies, operational rules within the technical core are less critical than the interpretation and application of administrative rules for mandate building.

In terms of intended outcomes, traditional process strategy theory still views performance as control to the strategy process. The types of intended outcomes are not simply financial, but include survival and variance and adjustment over time (Mintzberg, 1994). Public sector outcomes are naturally even less identifiable than private sector ones, but common to all, according to an institutional perspective, is that the outcomes involve legitimacy. As part of the ongoing legitimation process, there are mandate shifts, regulatory policy changes, and the movement of key personnel (Hawkins, 1984, 2002). A ‘successful’ agency is one that increases
its mandate, aligns its policy, and garners valuable personnel under a new authority regime (March and Olsen, 1989; Scott, 2001). Whether it hits specific budget targets is secondary.

As for unintended outcomes, process strategy’s strength as a research area is in showing how targets move, aspirations track downward, and organizations permanently fail (Grant, 2003; Tamuz et al., 2004). In this sense, new research on the strategy process is more similar to than different from work on strategy from an institutional perspective. Nevertheless, institutional research on public sector organizations has also described even more extreme cases. One is goal displacement due to co-optation by one narrow, external interest (Selznick, 1949). Another is becoming the embodiment of the problem the organization is designed to solve (Gouldner, 1954), a version of Orwell’s Ministry of Peace designed to carry out war (Orwell, 1949).

**Directions for Future Research**

Based on Table 22.3 above and the preceding discussion, there are at least three areas for process strategy that seem ripe for further exploration: the nature of policy initiatives, the identification of strategy agents, and the modeling of endogenous effects.

**The nature of policy initiatives**

Given that policy initiatives are the mezzo-level construct that best matches with the notion of ‘strategy’, it is important to understand the nature, types, interaction, and effects of policy initiatives. Political scientists have their own methods of examining policy initiatives, some of which have been alluded to above (e.g., based on type of interests and the distribution of costs and benefits). Organization theorists have adopted and built upon these, assessing the interests and issue groups in governments (Laumann and Knocke, 1987; March and Olsen, 1989). But organizational strategists would probably be able to identify others based on competition and cooperation models over mandates. Without being too simplistic, policy initiatives might be divided into diverse, specific, and broad appeal policies, based on the ways in which the policies enable actors to compete for mandates and legitimacy. Diverse policies capture a complex mandate based on many different actors; specific policies secure mandates offered by a few highly committed and discriminating interest groups; and broad appeal policies rely on one or two policies to capture a relatively thin but similar mandate across apparently different interest groups.

Given this simple scheme, a process theorist would be intrigued to see how a diverse set of policy initiatives might lead an organization in
intended and unintended directions, compared with a specific or broad appeal set. National environmental agencies in many countries appear to rely on diverse policies, covering many environmental issues simultaneously and somewhat co-equally (e.g., a focus on clean air, water quality, park and wildlife protection, etc.). But given their limited resources and their diverse mandate, these agencies typically can only attend to policies and objectives in sequential and superficial fashion (March and Olsen, 1989; Hoffman and Bertels, 2009). Thus, in periods like 2003–2009 when one overall issue, like climate change, arises, the diverse policy set will be insufficient, compared with a broad policy on this single issue.

The identification of strategy agents
There has been a move to ‘bring the manager being back in’ to strategy and to focus on practice (Lovas and Ghoshal, 2000). This is most apparent in Mintzberg’s recent popular book, *Managers, Not MBAs* (Mintzberg, 2005). This work is consistent with other process strategy work that views managers, especially those in the middle and lower level of the organization, as the source of real strategy (Burgelman, 1996). However, in the public sector it is not managers within the organizations but the collective, disembodied agency that is the source of action. In a given policy era, this disembodied agency might be anchored loosely around a new leader in a ministry, along with her contacts in industry and one well-known NGO; but it is just as likely to be embedded in the set of rules and interpretations from a prior set of deputy directors and the four or five bell weather regulated firms in the domain that have crafted their strategies around these rules. In keeping with process strategy research, the investigator will have to examine the interorganizational network and find the threads of action around policy to determine the real networks generating strategy. Hoffman and Bertels (2009), for instance, are currently examining all issues and actions taken by ENGOs and mapping out their overlapping activities to establish different agents in the environmental policy network. He has identified four types: portals, liaisons, peripherals, and isolates. While Professor Hoffman has not yet proposed examining the impact of the networks, it would be an intriguing (and natural) next step.

Modeling endogenous effects
Process strategy has been ahead of the strategy field on the issue of endogeneity. Most process models see strategy and its outcomes at least as co-determined by within-firm activities, and not just as a result of shocks or pressures from an external environment (e.g., see Farjoun, 2002; Lovas and Ghoshal, 2000). Several studies of organizational learning capture the simultaneous endogenous and exogenous effects of strategy and firm
processes on performance and adaptation (Greve, 2003; Schwab and Miner, 2008). Such studies require many observations and time periods, along with interorganizational environments that vary, yet in ways that can be systematically modelled. Such change can occur via the evolution of the industry structure (Dobrev et al., 2006) or new patterns among network participants (Gulati, 1995).

Public sector strategy is viewed as even more endogenously conditioned than private sector strategy, because the source of political mandates, the agents of action, and the adjudged outcomes are often all interacting within the same interorganizational network at the mezzo level. This makes it even more imperative to consider reciprocal effects and feedback loops within the public sector. Unfortunately, there are far fewer studies of public sector organizational initiatives modelling exogenous and endogenous drives, in part because the interorganizational situation is more changeable and complex, requiring more assumptions and a narrower focus. March and colleagues have probably done the most work in this regard. Their early work examined intra-organizational decision dynamics under various conditions of uncertainty and co-determinacy (see March, 1994 for a review). A recent extension of this work to the public sector has been made by Schulz and colleagues in a study of factors underlying legal rule changes in water law (Jennings et al., 2005; Schulz et al., 2008). This work fits with other institutional theory research that emphasizes the importance of courts and legislatures in identifying and interpreting key legal rules guiding policy and sector changes (Dobbin and Sutton, 1998; Edelman, 1992; Edelman et al., 1999). We expect to see other studies on public sector policy in this area in the near future.

CONCLUSION

This chapter has drawn on recent advances in process strategy research and extended them to public sector strategy using an institutional perspective. We have argued that strategy in this sector should be understood as emergent policy initiatives among groups of interorganizational actors. The policy formation process is both formal and informal in nature, and shaped by the institutional logics and sources of legitimacy in a field during a particular period. The effects of these emergent policies are likewise highly contingent on the actors, the logics, and the period, often producing surprising outcomes.

The institutional perspective on public sector process strategy extends current theory by focusing researchers on policy initiatives and the complex set of actors involved in their emergence. In addition, the
An institutional view of process strategy in the public sector extends current theory by examining outcomes from multiple levels of analysis and interpretation. The organization’s intended and unintended is part of that analysis, but so is the implication of that performance in the wider system (e.g., of regulation). This malleable, multilevel, interpretive and emergent nature of policy and its effects in the public sector makes us wonder if Mintzberg’s famous refrain about strategies might be re-phrased as:

Not to our realities
– may they mostly fall
as fast as they rise –
but to the wonders of fantasy.

NOTES

* We would like to thank our co-authors on our water management and water law research, Martin Schulz, David Patient, Ke Yuan, Caroline Gravel, and Jennifer Jennings, for allowing their work to be discussed and cited in this chapter. Any untoward extensions, inconsistencies, or factual errors, however, should be ascribed to the lead author.

1. The ‘mezzo’ level is also dubbed the ‘interorganizational’ level in the text, but with the caveat that the mezzo level includes not just the horizontal linkages among those organizations, but their vertical linkages with the field and focal organization.
2. Italics for the words switched (reality and fantasies) added for emphasis and focus.

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An institutional view of process strategy in the public sector


An institutional view of process strategy in the public sector


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