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## Research on the public sector's strategic management process based on dynamic capabilities

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### Abstract

Strategic management is a prominent subject within the realm of government governance and change, holding considerable importance for government organizations in their pursuit of precisely understanding economic and social trends and regulations, as well as enhancing administrative efficiency and effectiveness. This article enhances the conventional three-stage public sector strategic management model by differentiating between resources at various stages of the strategy and taking into account both internal and external factors in order to investigate the role of dynamic capabilities in the strategic management process. The objective is to develop a model of strategic management that incorporates dynamic capabilities.

**Keywords:** Strategic Management Process; Dynamic Capabilities; Public Sector; Internal Environment

### 1. Introduction

The study of strategic management in the public sector emerged as a novel practice model and theoretical paradigm during the 1980s. It is considered a significant component of the "New Public Management Movement." There have been two important factors supporting the development of strategic management in the public sector. Firstly, the expansion of research on strategic management in the private sector has prompted scholars to investigate whether the strategic management concepts and strategy formulation processes that are effective in business can also be applied to the public sector (Stieglitz and Heine, 2007). Furthermore, the public sector has been compelled to adapt its operational approach in response to dynamic shifts in the social landscape and heightened public demands. This transformation entails a shift away from a predominantly bureaucratic structure towards a more innovative and service-oriented organization, with the primary objective of effectively catering to the needs of the general populace (Zhao and Qi, 2022). Strategic management in the public sector entails the systematic development, assessment, and execution of strategies employing various techniques to attain predetermined strategic goals. Consequently, strategic management encompasses not only the determination of the most suitable strategy for adoption by the public sector but also the selection of said strategy and the application of specific techniques and skills to evaluate and implement it (Liang and Yuan, 2015).

In recent years, there has been a notable shift in the focus of research on the strategic management process in the public sector. This movement can be attributed to the ongoing advancements in strategic management concepts and techniques within the private sector, as well as the evolving landscape of government management (Adner and Helfat, 2003). One notable tendency in contemporary discourse pertains to the increasing emphasis on strategic dynamic capability as a focal point of analysis and investigation. This paper posits that it is imperative for the public sector to thoroughly analyze both its internal and external surroundings throughout the strategy formulation phase. Furthermore, it suggests that the public sector should cultivate dynamic capabilities within the strategic management process in order to effectively leverage its available resources and successfully attain the organization's strategic

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objectives. This paper aims to incorporate dynamic capabilities into the strategic management process, drawing from the traditional strategic management process model. The objective is to enhance the public sector's ability to adapt to both internal and external environments. Additionally, the paper proposes the establishment of an internal environment research and control mechanism, which would facilitate the development of the public sector's internal environment and foster the cultivation of dynamic capabilities.

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## 2. Dynamic Capabilities

The theory of dynamic capabilities is based on the resource-based view and the core competency view. Its purpose is to attain sustainable competitive advantage in a dynamic setting and maintain a competitive edge over rivals (Lin, Ke and Jiang, 2010). In the private sector, where rapid technological change and changing market demands generate intense competition and objectively require rapid adaptation to the market environment (Fines, 1998), the limitations of core competencies and resource perspectives, as well as changes in the internal and external environment, have led to the emergence and development of dynamic capabilities theory (Teece, Pisano and Shuen, 1997). Simultaneously, proponents of dynamic capabilities theory have suggested that competitive advantages derived from dynamic capabilities possess distinctiveness within the sector and are capable of being maintained over time (Eisenhardt and Martin, 2000).

In the context of strategic management, organizations in both the public and private sectors encounter distinct management scenarios that necessitate the application of strategic management approaches, tools, and methods. However, the effectiveness of their strategic management practices is contingent upon the organization's ability to navigate and respond to external macro-environmental factors and limitations (Ying, Liu and Li, 2003). These factors include the political, economic, social, cultural, legal, and technological dimensions of the external environment (Zahra, Sapienza and Davidsson, 2006). The public sector's capacity requirements for dynamic changes in the external environment vary due to the varying degrees of change in this external dynamic environment. In an environment characterized by constant change, the mastery of dynamic skills by the public sector can consistently lead to improved performance and a competitive edge.

It is noteworthy that three important factors—human resources, social capital, and management perceptions—have an impact on the strategic management process in the private sector with regard to the internal environment (Gavetti, 2005). In contrast, administrative officials and managers have a significant influence on the strategic management process in the public sector. In contemporary public sector organizations characterized by a hierarchical framework, individuals occupying senior positions wield significant authority over the overall strategies, policies, and systems of the organization. These high-ranking officials exert influence over the strategic decision-making processes within the public sector by advancing their careers through bureaucratic promotions, thereby aligning their actions with political objectives. In contrast to their private-sector counterparts, who prioritize profit generation, public-sector executives prioritize the execution of their superiors' directives in order to achieve political objectives. Leaders play a crucial role in the execution of public sector strategies, and their competence significantly influences the outcomes of such implementations. Additionally, as internal stakeholders within the public sector, leaders' contentment and endorsement of strategic planning in the public sector are also significant considerations in strategic evaluation.

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## 3. Conventional Three-Stage Public Sector Strategic Management Model

The field of strategic management in the public sector involves the integration of strategic subjects, strategic objects, and internal and external environments. Consequently, the public sector requires a systematic and functional process model to successfully develop and execute its strategy in alignment with the prevailing internal and external conditions. The most influential strategic management model is the six-part model proposed by Paul C. Nutt and Robert W. Backoff (2002): describe the organization's historical context in terms of environmental trends, general direction, and standard concepts; analyze the current situation in terms of current strengths and weaknesses, future opportunities, and threats; develop an agenda of strategic issues to be addressed at the present time; develop strategic alternatives to address the issues that need to be prioritized; evaluate the strategic options in terms of stakeholders and resources required; and implement the prioritized strategies through the allocation of resources and the management of people. Chen (2004) divided the public sector strategic management process into three stages based on the N&B model: strategic planning, strategy implementation, and strategy evaluation.

### 3.1. Strategic Planning

The strategic planning stage is the first stage of the management process in the public sector, with the two primary components being strategic analysis and strategic selection.

### *3.1.1. Strategic Analysis*

The initial step in the strategic planning phase involves conducting a strategic analysis, which serves the purpose of elucidating the overarching objectives that are to be attained. During the strategic analysis stage, the public sector must analyze the organization's historical background and create a stable system by combining the objects to be served, the expectations of stakeholders and the public, the process of implementing the strategy by the organization, and the resources required. The stability of this system is crucial, as any modification to its components can lead to a divergence from the predetermined strategic objectives.

Once the organizational objectives have been clarified, it becomes imperative to gather and evaluate information pertaining to the company at a macro level. This entails conducting a PEST analysis, wherein the primary emphasis is placed on political, economic, social, and scientific and technical factors. Ultimately, a comprehensive examination and assessment are conducted using SWOT analysis, taking into account the internal circumstances of the public sector and the external environmental elements. The utilization of a SWOT analysis has the potential to serve as a catalyst for the public sector, encouraging the identification and mobilization of internal strengths to effectively capitalize on external opportunities, mitigate potential risks, and gain a clearer understanding of the organization's fundamental skills.

### *3.1.2. Strategic Selection*

The process of strategy selection involves the systematic organization and categorization of all the information acquired during the strategic analysis. This information is then aligned with the strategic environment of the company. It is critical to align external and internal aspects of importance when developing alternative solutions. The strategy creation team engages in a comprehensive analysis of the organization's overarching objectives, conducts an evaluation of the organization's operational activities, and conducts an assessment of various alternative strategies.

## **3.2. Strategy Implementation**

The design of an effective plan does not necessarily ensure the successful implementation of that approach. In contrast to the private sector, the public sector encounters several internal limits and external influences that pose challenges to the implementation of strategic management within its domain. The process of strategy implementation primarily comprises the development of specific actions to actualize the strategy. This process encompasses various interconnected activities or functional components. In broad terms, the process of implementing a strategy often encompasses many key stages: strategy introduction, design of an action plan, organizational and resource preparation, strategy experimentation, and ultimately, complete implementation.

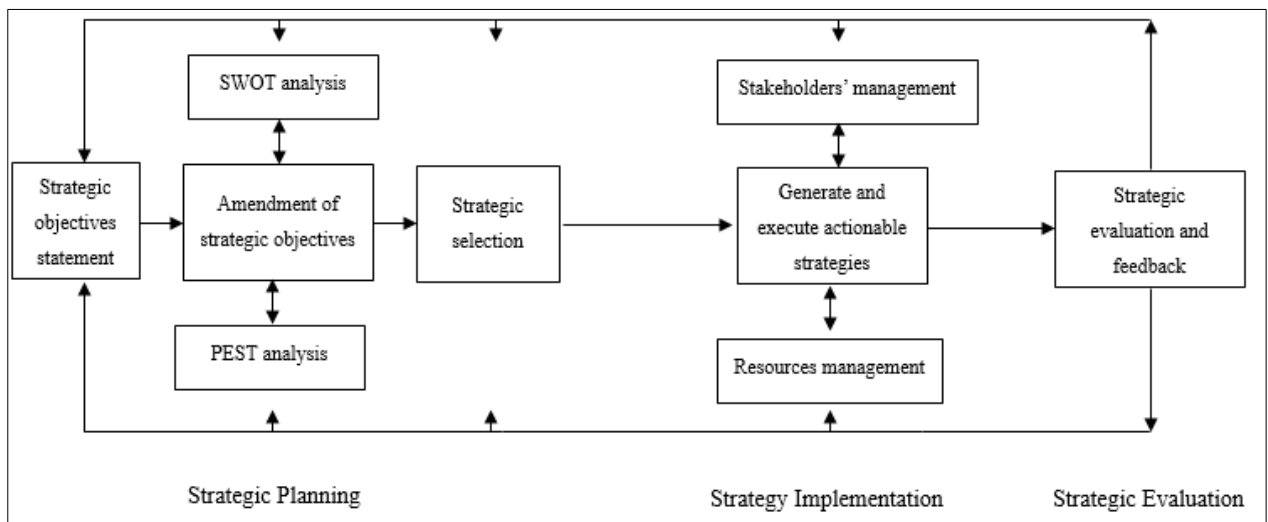
During the implementation of strategy within the public sector, it is imperative for managers to place significant emphasis on the involvement of resources and stakeholders. In order to facilitate the generation of novel ideas within the public sector, it is imperative to establish an environment characterized by mutual cooperation. In order to achieve consensus, it is imperative for the public sector to deliberate upon the potential adverse consequences that may arise from the implementation of a particular public service for its intended beneficiaries. Is there sufficient regulatory, tax, financial, and other forms of support for this service? In contrast to the commercial sector, which primarily focuses on product quality, sales, and service safety, the public sector is subject to criticism from several stakeholders and must effectively address all organizational actions in order to achieve successful strategic outcomes. In contrast to the private sector, which primarily focuses on product quality, sales, and service process security, the public sector is subject to the scrutiny of various stakeholders. The public sector needs to carefully consider and address each action it takes as part of its overall strategy in order to succeed.

## **3.3. Strategic Evaluation**

Strategic evaluation refers to an administrative practice involving the monitoring and assessment of the overall process of strategy implementation. This practice utilizes specific criteria and procedures to gather information on various aspects, with the ultimate goal of informing decisions related to strategic change, improvement, and the formulation of new strategies. The successful execution of a strategy necessitates not only the development and execution of a well-founded and effective plan but also the assessment of the impact of strategy implementation in order to ascertain its worth. Strategic evaluation facilitates the assessment of potential discrepancies between the ultimate strategic outcomes and the initial strategic objectives, allowing strategy developers and implementers to determine the necessity of adjusting and missioning the strategy implementation process accordingly. Additionally, it serves as a valuable reference for future strategy analysis and selection, thereby enhancing the efficacy of strategic management within the public sector.

The current body of literature pertaining to the strategic management process in government places significant emphasis on differentiating between the various components involved. These components include strategic planning, forecasting, and conducting a comprehensive evaluation of an organization's historical, current, and future state through meticulous strategic analysis. Furthermore, this research underscores the importance of thoroughly considering the potential and actual effects of government strategy on stakeholders. Additionally, scholars have underscored the significance of thoroughly assessing the potential and actual effects of government strategies on various stakeholders. Insufficient emphasis is placed on issues such as strategy implementation and control, with a disproportionate focus on strategic planning that neglects the importance of strategy execution. Furthermore, the performance of the public sector is marked by inherent ambiguity and diversity, posing challenges in the measurement and control of strategic resources within the organization. The conventional strategic management process proves inadequate in offering effective solutions and fails to establish a self-contained and iterative strategic process.

This paper examines the attainment of dynamic capabilities in the strategic management process and the enhancement of public sector strategic management by implementing internal environmental research and control mechanisms, drawing upon the conventional three-level public sector strategic management model.



**Figure 1** Conventional Three-Stage Public Sector Strategic Management Model

#### 4. The Public Sector's Strategic Management Process is Based on Dynamic Capabilities

Dynamic capabilities have the ability to enhance resource efficiency and social efficiency within the public sector, thereby conferring a distinct and enduring competitive advantage. Within the realm of strategic management, the attainment of dynamic skills holds the potential to facilitate the public sector in establishing competitive advantages and attaining a favorable strategic position. The existing body of literature on dynamic Capabilities can be categorized into three main streams: studies focused on human resources and social capital, studies centered around organizational capital, and studies examining the process of resource transformation into competitive advantages (Fang and Luo, 2011). Hence, in order to effectively implement dynamic capabilities within the strategic process, it is imperative to establish a precise differentiation among the resources within the public sector (Kaplan and Norton, 2004). This paper presents a framework that proposes mechanisms and processes for the public sector to develop dynamic capabilities and efficiently utilize organizational resources. Additionally, it addresses the research and control of resources and the internal environment during strategic management, aiming to enhance the strategic management practices of the public sector and mitigate potential risks (Preble, 1997).

This paper posits that in light of the concept of dynamic capabilities and the establishment of the internal environment within the public sector, the strategic management process in this sector should encompass the following stages: the stage of strategic planning, which primarily involves strategic information gathering, strategy development, and strategy interpretation; the stage of strategy implementation, which primarily entails strategic synergy, strategy articulation, and strategy implementation; and the stage of strategy evaluation, which primarily encompasses strategy evaluation and strategy control.

## **4.1. The Stage of Strategic Planning**

### *4.1.1. Strategic Information Gathering*

The primary assets that the public sector uses in the process of strategic planning are information resources. To achieve dynamic capacity, it is imperative for the public sector to establish and enhance its capacity for information gathering and analysis, as well as acquire proficiency in utilizing and harnessing information resources. Currently, the public sector has the ability to collect and analyze external environmental information effectively through methods such as PEST analysis and SWOT analysis. However, the collection and analysis of internal environmental information within the public sector lacks standardization. To identify unique and sustainable advantageous resources within the public sector, it is necessary to establish a research mechanism for the internal environment of the public sector and enhance the capacity for collecting and analyzing internal information. Through a comprehensive analysis of both internal and external factors, the public sector can effectively engage in strategic positioning, enabling the formulation or modification of strategic missions.

### *4.1.2. Strategy Development*

Following the establishment of a strategic position, it is imperative for the public sector to initially delineate its strategic mission, which pertains to the core purpose underlying the existence of said public sector. The establishment of the strategic mission should be grounded in the organization's information resources as well as its internal and external surroundings. Furthermore, it is imperative for the business to continuously adapt its purpose in response to shifts in information and the environment. Furthermore, it is imperative for the public sector to ascertain the fundamental value of the organization in accordance with its goal and utilize it as the fundamental principle to steer the decision-making process within the organization. Furthermore, it is imperative for the public sector to employ a diverse range of analytical methods in order to assess the multifaceted interests of the economy and society. This entails identifying strategic concerns and formulating a strategic change agenda that is grounded in a thorough and precise comprehension of both internal and external environmental factors. In addition, it is imperative to generate alternative strategic possibilities in light of the defined strategic change agenda. Furthermore, create alternative strategic possibilities for the stated strategic change agenda, as well as assess and select alternative strategic methods to develop a multifaceted and comprehensive plan.

### *4.1.3. Strategy Interpretation*

Strategic interpretation encompasses a series of four primary steps: Initially, the public sector translates conceptual strategic descriptions into strategic objectives that align with the organization's interests. Furthermore, it is imperative to conduct an analysis of the level of difficulty associated with the performance of each strategic sub-goal. This analysis should inform the design and selection of appropriate strategic assessment measurement indicators and target values. These indicators and values should be based on the evolving internal and external environment of the strategy, as well as any changes in available resources. In contrast to the private sector, the creation of indicators in the public sector necessitates greater caution and adaptability due to the inherently ambiguous nature of public sector performance, the presence of subjective elements, and the existence of inherent conflicts. The design of strategic action programs and the process of developing and selecting public sector action programs are influenced by two main factors: legal and regulatory requirements and the preferences of the leadership. These factors have a direct impact on the self-interest of the public sector and have significant implications for the public interest. Therefore, it is imperative that these processes are conducted in an open and transparent manner. In order to mitigate the potential negative effects of leadership turnover in the public sector, it is imperative to develop a dedicated strategic expenditure design. This design would serve to prevent the undue prioritization of short-term objectives at the expense of long-term aims.

## **4.2. The Stage of Strategy Implementation**

### *4.2.1. Strategic Synergy*

The successful execution of strategic plans within the public sector necessitates the establishment of strategic synergy, which involves the decomposition of strategic objectives into actionable plans, the mobilization, integration, and configuration of both internal and external resources. The crucial factor in achieving synergy is the identification of the sources that contribute to synergistic value. In order to enhance organizational effectiveness, it is imperative for the public sector to have a collaborative relationship with lower-level departments. Once the strategic objectives of the higher-level departments have been identified, the lower-level departments should align their own strategic goals and programs accordingly. Furthermore, it is imperative for the public sector to establish synergy with various functional departments. These departments are responsible for distinct public management or public service duties, yet they share a cross-functional or work interface. Therefore, it is essential to clearly define the requirement for aligning strategic

objectives in order to enhance collaboration in their respective tasks. Ultimately, it is imperative for the public sector to collaborate effectively with its employees. This entails aligning the strategic objectives of the organization and its many divisions in a vertically synergistic manner. By doing so, the overarching strategy can be effectively deconstructed and converted into tangible actions that can be undertaken by individual employees.

#### *4.2.2. Strategy Articulation*

Strategic articulation refers to the need for the public sector to establish a clear hierarchy of strategic processes, identify areas in need of improvement and their critical success factors, devise suitable indicators for measuring the performance of strategic processes, and ultimately implement the necessary actions for improvement. The establishment of internal control indicators within the public sector is imperative to effectively implement the strategic plan. These indicators should align with the dynamic internal and external environment of the organization. Additionally, internal control targets should be set, and strategic crisis response plans should be generated.

#### *4.2.3. Strategy Implementation*

In anticipation of executing the strategy, it is imperative for the public sector to develop specific communication and training initiatives for the strategy's implementation. This will guarantee that internal communication channels remain accessible and that individuals responsible for executing the strategy possess the necessary knowledge, skills, and competencies aligned with the strategy's demands.

During the course of strategy implementation, it is imperative for the public sector to build a strategic framework inside the department and assemble a dedicated team to effectively execute the accountability system. Following the implementation of the responsibility mechanism, the strategy team members commence the execution of strategic measures, proficiently overseeing the strategic action program through the stages of development, review, evaluation, implementation, and evaluation. They also make necessary adjustments or replacements to the action program in a timely manner, in response to shifts in the internal and external environment. The individual in charge of the strategy team will be responsible for allocating the required resources to support the implementation of the strategy. They will also be tasked with monitoring the progress and effectiveness of the strategic actions through both scheduled and unscheduled inspections. Additionally, they will be responsible for promptly identifying any internal issues or crises within the public sector, and selecting appropriate response options to address these problems, and providing feedback.

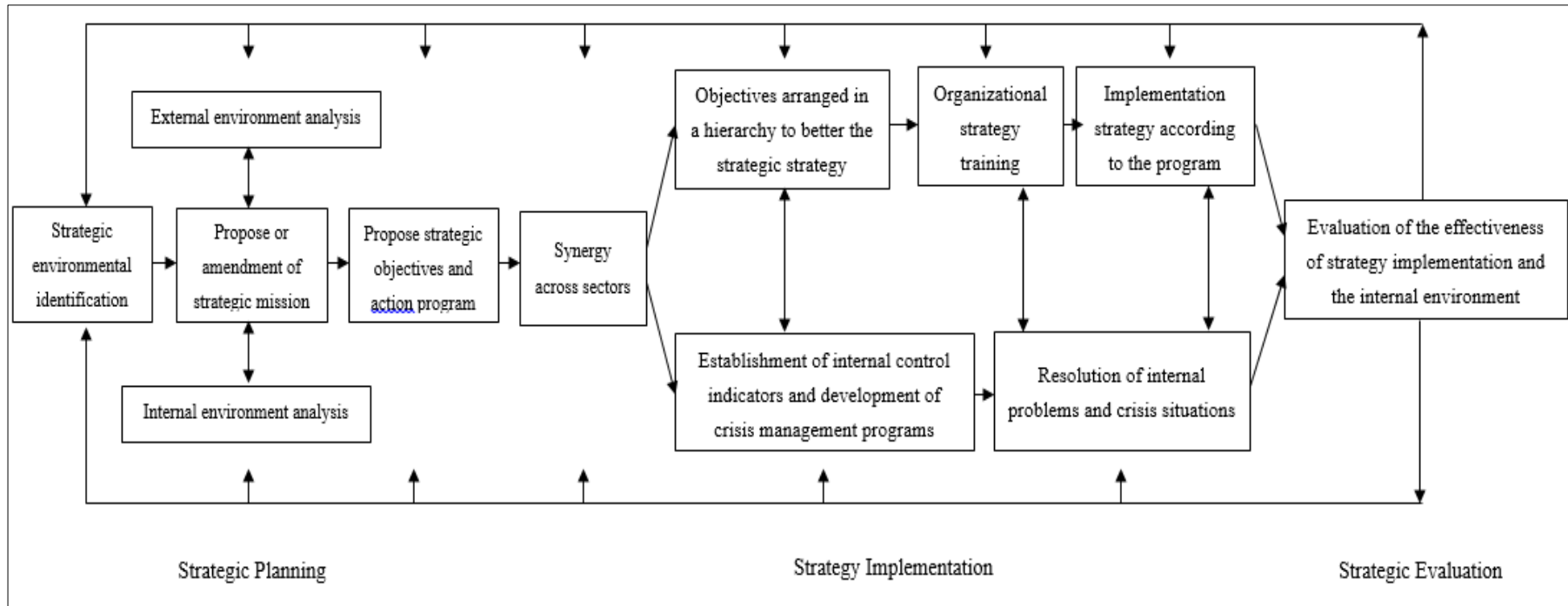
### **4.3. The Stage of Strategy Evaluation**

#### *4.3.1. Strategy Evaluation*

It is imperative for the public sector to utilize the gathered information pertaining to strategy implementation and the internal environment inside the public sector in order to assess, scrutinize, and contemplate the execution of strategy and the establishment of the internal environment. The enhancement of information resource usage, accumulation of experience, and augmentation of intellectual capital can be efficiently achieved through a strategic evaluation approach in the public sector management team. At present, the public sector primarily concentrates on two key areas: assessing the efficacy of plan implementation and evaluating the internal environment. The collection of data pertaining to strategy implementation and the internal environment is conducted in order to generate evaluation reports that are pertinent to the subject matter. These reports primarily encompass a comparison between the outcomes of strategy implementation and the objectives set for implementation, an analysis of the efficacy of the strategy implementation plan, a targeted evaluation of the internal control strategy, and an examination of the effectiveness of the implementation of the internal control plan. Following the formulation of assessment results, it is imperative for managers to promptly deliver feedback to employees regarding said conclusions. Additionally, managers should endeavor to comprehend the attitudes and perspectives of employees in relation to the evaluation conclusions, with the ultimate goal of achieving consensus between both parties.

#### *4.3.2. Strategy Control*

Within the realm of the public sector, the organization and execution of management control meetings is an essential and unavoidable approach to enhancing the efficacy of strategic control. In conclusion, it is recommended that the public sector prioritize the organization of strategy review meetings and implementation review meetings. These meetings should primarily concentrate on evaluating the execution of strategic action programs, taking into account the fluctuations in available resources throughout the strategy's implementation. The main objective of these meetings should be to assess and analyze the progress made in implementing specific work plans and subsequently propose corrective measures to guide the development of future strategies.



**Figure 2** A Dynamic Capability-Based Model of The Public Sector's Strategic Management Process

## 5. Conclusion

Failure to consider the internal environment in public sector strategy may pose risks to the execution of organizational strategy. Therefore, it is imperative for the public sector to not only focus on the changes in the external environment, as emphasized by dynamic capacity, but also enhance the development of the internal environment. Hence, it is imperative for the public sector to engage in a comprehensive examination and evaluation of both internal and external factors within the context of strategic management. This paper examines the implementation of dynamic capabilities within the context of strategic management in the public sector, drawing upon the traditional three-level strategic management model. It aims to establish a research and control mechanism for the internal environment during the process of public sector strategic management.

In the context of strategic management in the public sector, variations in resource utilization across different stages of the process result in disparities in the attainment of dynamic capabilities within the strategic management framework. According to the framework proposed in this study, at the stage of strategy formulation, it is imperative for the public sector to establish a robust mechanism for the collection and analysis of information resources, while simultaneously enhancing the development of relevant competencies. During the stage of strategy implementation, there is a strong emphasis on the capacity to formulate strategic plans, as well as the establishment of effective internal control systems and departmental synergy mechanisms. The strategy evaluation stage places emphasis on the utilization of information created during the process of plan execution. Through a comprehensive analysis of pertinent data, a precise evaluation of plan execution and modifications within the internal environment is conducted, with the outcomes serving as a guide for the development of future strategies.

The research presented in this paper offers insights for the public sector to achieve dynamic capability within the realm of strategic management. By adapting to changes in both internal and external environments, as well as considering the unique characteristics of the sector, the implementation of dynamic capabilities within the strategic management process has the potential to enhance administrative efficiency and social effectiveness. Simultaneously, the implementation of internal environmental research and control mechanisms serves to mitigate strategic risks inside the public sector during the strategic management process, while also fostering the development of dynamic capabilities.

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## Compliance with ethical standards

### *Disclosure of conflict of interest*

No conflict of interest to be disclosed.

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