

**STRATEGIC PLANNING AND MANAGEMENT IN PUBLIC AND PRIVATE SECTOR ORGANIZATIONS IN EUROPE: COMPARATIVE ANALYSIS AND OPPORTUNITIES FOR IMPROVEMENT**

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*Management issues can be divided in two large groups: governmental or public, with its specific aims, methods and challenges, and private sector responsible for economical results, competitiveness and state revenues. Although these sectors have so much in common in sustaining the state, striving for excellence, fulfilment of European Union 2020 strategy and for the best results, they are at the same time very different. By theory and practice, one of the greatest methods how to improve performance, is benchmarking- both looking for the best in the concrete field and in different area. In the article authors compare strategic planning and management issues in public and private sector; thus identifying strong and weak points of each system. Proposals are made how to improve management of both sectors, implementing ideas from the best praxis examples and success stories in other management areas.*

*The purpose of the study is to analyse strategic planning, management and leadership in praxis of public and private sector thus identifying opportunities to improve other's sectors performance. For doing this, authors have completed several tasks: analysed strategic planning, management and leadership praxis in public sector; analysed strategic planning, management and leadership praxis in entrepreneurial sector; conducted comparative analyses of strategic planning and management processes in both sectors, made conclusions and generated suggestions for improving the performance of governmental and private sector.*

*In their research authors have used several methods: information content analysis method, logically constructive analysis method, case analysis method. For the theoretical part of the research authors explore the principles of strategic planning and organization management that were originally developed mainly in the United States, but for several decades have been successfully applied and developed in organizations in Europe. For the practical case study of the research authors have limited the scope of research to Latvia, a full status EU member state, which at a large scale represents the trends of strategic planning and management processes in EU and since year 2008 in many cases have been set as a good example for recovering from economic crisis through smart strategic planning and management of public administration.*

*Key results lead to conclusions that in public sector there is great emphasis on strategic planning part of management process, but implementing plan to clear activities and getting right result sometimes delays or is even missed. In private sector entrepreneurs tend to look short-term thus gaining results in small every-day actions but lacking greater sight to future and therefor plundering chance of greater growth. Government should implement more client-oriented approach using best examples from entrepreneurial world. Private sector should learn how to generate concrete long-term plans, delegate duties and not to mix responsibilities in enterprise for greater results. Consolidating mentioned above, both sectors should learn from each other thus improving its competitiveness and performance for joined moving towards reaching goals of EU 2020 strategy.*

**Keywords:** *public sector, entrepreneurship, Latvia, management, strategic planning, private sector*

## **Introduction**

Strategic planning as an organization development tool as we know it nowadays started to be outlined in mid 1950ies and for more than 30 years was mainly used in private business sector while the concept and performing culture of public administration was developing entirely on the basis of national constitutions and laws.

Today, in one or another way all organizations in both, private and public sectors, are using strategic planning as a tool for performance and development. Although the expected outcome of purposeful strategic planning and strategic management theoretically seems to be mainly the same in public and private sectors, i.e., accepted strategic

plan with clearly formulated vision and achievable goals binding employees of all levels of the organization, however the approaches and the usage of this tool differs in public and private sector. It is considered that private sector prevails over the public sector in efficiency and result oriented actions. Although this assumption is reasoned with lots of practical examples and arguments, and efficiency's prevalence of private sector over the public administration was proved more than 200 years ago by the father of nowadays' economic theory, Adam Smith, who clearly formulated that "it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own

self-interest.” (Smith, 1776). Considering that the greatest teacher of public administration is private sector, this argument does not encourage public administration to work in its own self-interest, but discovers more efficient environment where to find the best management practices, for instance in field of customer care, that can be adopted in a legal and rational way. Today, however, taking into account that strategic planning and management used in the public sector for well over two decades has become prevalent in governmental jurisdictions at the supranational, national and local levels (Bryson, 1988, Eadie, 1983; Ring, Perry, 1985) and comparing the usage of this tool in public and private sectors it is not that well decided who should learn from whom. There are strengths and weaknesses on both sides.

Public and private sectors have so much in common in sustaining the state, striving for excellence, fulfilment of European Union 2020 Strategy<sup>□</sup> (European Commission, 2010) and for the best results, but at the same time these sectors are also very different. These differences are grounds for applying benchmarking method to identify possibilities for improvement. Same as in comparing to the best in business field, exactly looking for linkage to different area gives most surprising results. In the age of knowledge every organisation has to compare it to competitors not only to dynamics inside the organisation itself. Same is true with economic sectors as they need proposals for improving management even more than concrete companies. Purpose of the article is to compare strategic planning and management issues in public and private sector for identifying possibilities to work more efficient and gain better results in both of these sectors. Effective strategic planning is remarkably topical and still improvable process that is being recognized as good practice of management and at the same time it also makes healthy competition in public administration and private business sector in Europe. A lot of public and private sector institutions and companies are very interested in exploration of new ideas and research methods and results in this field. Researching, developing and discovering questions of customer relationship and effective strategic planning, and rapid implementation of solutions have become a true necessity for progress of social, political, and economical processes. Besides, by introducing the Cambridge process in late 1990-ies followed by Lisbon strategy in 2000 and EU 2020 strategy in 2010, the aspects of strategic planning and organization management have taken important role not only in organizational development of and within the EU, but also in deeper integration of the EU itself by implementing focused and purposeful, “centralized”, common strategic planning where all EU member states take equally important part in sustaining, development, integration, “Europeanization” and achievement of common targets and results.

The **main tasks** completed during the research include analyses of different theoretical and practical views on strategic planning, management and leadership praxis in governmental and entrepreneurial sector; comparison of results using SWOT analyses of public and private sector and identifying strong and weak points, and success stories as well as preparation of conclusions and recommendations for improving the strategic planning and management in of public and private sector.

Main **methods** used in the research are information content analysis method, logically constructive analysis method and case analysis method. In order to identify the necessary adjustments in comparatively new theory of strategic planning and to identify the space for improvements in applied praxis, the practical examples are also compared with strategic planning and strategic management theory cases.

**Key results** lead to conclusions that in public sector there is great emphasis on strategic planning part of management process, but implementing plan to clear activities and getting right result sometimes delays or is even missed. In private sector entrepreneurs tend to look short-term thus gaining results in small every-day actions but lacking greater sight to future and therefor plundering chance of greater growth. Governments should implement more client-oriented approach using best examples from entrepreneurial world. Private sector should learn how to generate concrete long-term plans, delegate duties and not to mix responsibilities in enterprise for greater results. Consolidating mentioned above, both sectors should learn from each other thus improving its competitiveness and performance for joined moving towards reaching goals of EU 2020 strategy.

Short review of the origins of strategic planning

In ancient Greek, the word *strathgia* meant the art of carrying out a military campaign. If we split the word, *stratos* (from Greek στρατος) means „army” or “war” and *ago* would mean “to manage”. There are quite a few books written exploring the art of war management during the ancient and medieval times and researchers of today find couple of similar principles in strategic planning nowadays and in earlier history.

However, strategic planning as we know it nowadays is considered to be developed starting the mid 1950ies when first books on modern strategic planning and strategic thinking were published. Among the first authors, the fathers of strategic planning several are to be named – Alfred Chandler (1918 – 2007), professor of business history in Harvard Business School in United States, Philip Selznick (1919 – 2010), professor of law and society at the University of California in United States, Igor Ansoff (1918 – 2002), Russian American applied mathematician and business manager, and Peter Drucker (1909 – 2005), professor at the New York University in United States.

Alfred Chandler published his classic business book “Strategy and Structure” in 1962 in which he argued that all successful companies must have a structure that matches their strategy rather than the other way round as many had assumed until then. He based his theory on an extensive study of large American corporations between the years 1850 and 1920 – corporations such as Du Pont, General Motors and Sears, Roebuck. It was a time when businesses were developing from single-unit, centrally managed operations into umbrella-type structures where a number of comparatively autonomous units shared certain overheads, in particular the strategic planning function (The Economist, 2009).

Philip Selznick initiated the idea about interrelation of organization’s internal factors with elements of external environment that was described in his work „Foundations of the Theory of Organization” (Selznick, 1948). The essence of this idea nowadays is formed as strictly imprescriptible element of strategic planning – the SWOT analyses

(strengths, weaknesses, opportunities and threats), where the organization's strengths and weaknesses are analysed within the context of organization's opportunities and risks of external business environment (Selznick, 1957).

Igor Ansoff invented so called "gap analyses" that was described in one of his first books „Corporate strategy" in 1969. The principles of gap analyses are still being widely used when defining the „gap" between state of play or the existing situation of organization and the future situation where the company wants to be, the statement of vision. When these two points are clearly set and formulated a plan of the gap reduction can be developed (Ansoff, 1969; The Economist 2008).

Peter Drucker emphasized the necessity of organization's objectives and goals. An organization without the objective he compared to a ship without steering wheel. In 1954 he published the book „Practice of Management" which later turned out to form the theory of objective management – MBO – "management by objectives". The essence of MBO is participative goal setting and according to Drucker the goal setting within the organization must be integral and widespread across all levels of organization's hierarchy. Ideally, when employees themselves have been involved with the goal setting and choosing the course of action to be followed by them, they are more likely to fulfil their responsibilities. The other major contribution from Drucker that is becoming more and more important in nowadays organizational management is the role of intellectual capital. He advocated that intellectual work is not hierarchical; within the team work more knowledgeable team member for a specific task will always be an informal interim leader, regardless of the structure of the hierarchy (Drucker, 1954).

Later, in the second half of 20<sup>th</sup> century, another well-known academic appeared who writes about strategy and organizational management – Henry Mintzberg (born in 1939), professor of Management Studies McGill University in Montreal, Canada. He initiated some critics towards strategic planning arguing that the label „strategic planning" should be dropped because strategic planning has impeded strategic thinking (Planning Skills, 2012). He concludes that strategic planning often fails because it is not the same as strategic thinking. Planning is about analysis – about breaking a goal into steps, formalizing those steps, and articulating the expected consequences. Strategic thinking, in contrast, is about synthesis. It involves intuition and creativity. The outcome of strategic thinking is an integrated perspective, a not-too-precisely articulated vision of direction that must be free to appear at any time and at any place in the organization (Mintzberg, 1994).

Of course, there are many more strategic thinkers and writers on the topic – Porter, Chan Kim, Mauborgne, Moore, Poister, Ring, Perry, Streib, Bryson, Vinzant and many, many others. Although initially strategic planning was mainly associated with and used more in a private business sector and strong majority of authors focus on private business sector, however in 1980ies also public administration started to notice that strategic planning principles can be used for its development.

### Strategic planning in public administration

Strategic planning and strategic management in public administration is closely related to the overall concept and culture of public administration, i.e., the government essentially serves the community and should follow the changes in society, its values and needs.

According to a joint initiative of the Organisation for Economic Cooperation and Development (OECD) and the European Union (EU) the strategic planning system at central public administration level nowadays consists of two main components – management component and budget component. The strategic management component generally consists of mandate (statement of mission), vision, values, internal and external environment analysis, medium term priorities, directions of activities, monitoring, and evaluation, reporting, while the budget component consists of current situation analysis, objectives, results and performance indicators of the budget programs, funding programmes. A strategic plan of state institution is management and a budgetary planning document which assure medium term planning for central public administration institutions. It refers to the public policies under the competence of the institution and it offers a clear image of policies, commitments and measures that will be promoted at the institution level, but it is not a public policy document itself. A strategic plan of state institution supports the shift from a resources oriented management to a results based management (Dinu, 2007).

Scholars and practitioners have been interested in strategic planning and management in the public sector for well over two decades (Bryson, 1988; Eadie, 1983; Ring, Perry, 1985). Over that period, many books and articles have been published on this subject, and strategic planning has become prevalent in governmental jurisdictions at the federal, state, and local levels. Whereas it was novel 20 years ago, it has become orthodox practice by now. There are some consistent findings that the way an organization implements strategy has consequences for outcomes and an organization's performance. Studies found that linking the strategic plan to the budget, using the strategic plan to drive the organization's overall performance management system (Poister, Streib, 2005; Poister, Van Slyke, 2002), and using performance measures to monitor the progress of strategic initiatives (Hendrick, 2003; Poister Streib, 2005) leads to better outcomes (Poister, Pitts, Edwards, 2010).

Effectiveness of strategic planning as an effective tool of strategic management in public agencies requires top managers' active roles in defining the strategic direction of the organization and creating an environment that recognizes strategic planning as a tool of strategic management. Also, it requires good working relationships between the strategic planning staff, unit or division managers, and the top management team; the location of the strategic planning staff close to top management; integration of unit or division plans into an organization-wide strategic plan; and a planning process that is not too rigid or mechanical. Even though strategic planning has been used in various public sector agencies for more than 20 years, not much is known about its effectiveness (Poister, Streib, 2004). A review of the extant literature by Vinzant and Vinzant (1996) concludes that public organizations are not good candidates for strategic planning

because of the difficulty in designing and implementing it in such environments (Backoff, Wechsler, Crew, 1993; Streib, 1992). Its use in the private sector, however, has received the attention and increased interests of public sector organizations (Ugboro, Obeng, Spann, 2011, p.88).

As for the client-orientation within the context of strategic planning, the private business sector in contradiction to public administration for longer time already admits that the most important is the client but not profit, quality or other business matters. Both quality and profit depend on client. Client defines these matters. However, in recent decades similar ideas have come also into public administration, that has caused a creation of new public administration culture, where in the centre of attention is recipient of public services – the client. Public institutions are implementing the principles of private business, focusing more on cooperation, cost reduction and achievement of results. Public administration is becoming more flexible and transparent meeting the needs of customer instead of bureaucracy. Cooperation between the client and public administration has to become as simple as possible in terms of diminishing administrative burden on individuals and businesses in order to save customers' time and money and support development of businesses. Importance of the client in public administration recently has been even more highlighted in the objectives of national and EU strategic documents that underline expanding the availability of public services. A lot of public administrations in Europe are increasingly focusing on particular strategic objective – to become such an organization so that clients' consider them to be client-orientated. Main activities for obtaining the mentioned objective are – simplification of legal acts, simplification of meeting state liabilities, formation of call centres, designing and perfection of web pages, particular attitude and specific information to new clients, and implementation of electronic working environment and electronic services in order to ensure quick and convenient information and document exchange both inside the organization and between the public institution and client (Schneider, 2005).

### **Strategic planning in public administration in Latvia**

The development of united policy planning and coordination system in Latvia was started in 2000. In 2001 Policy Planning Guidelines was adopted by Cabinet of Ministers, which prescribes the basic principles for the policy development, types of policy planning documents and their hierarchy. In 2003 the Methodology Guidelines for Development of Institution Strategic Plan was developed and the pilot project started – Ministry of Agriculture was the first who developed its Strategic Plan. According to the results of pilot project, later, in 2006, strategic planning and medium term budget planning was introduced in all central state administration institutions – ministries and state institutions under the direction and authority of ministries, including state and municipal agencies which also developed their strategic plans in line with the Law on Public Agencies. Implementation of the strategic planning system was a substantial step towards linkage of the policy planning process and drafting of the state budget.

The key principle of strategic planning in public administration in Latvia is maximizing the integration of policy planning and budgeting process and the main document

of strategic planning is institution's action strategy. The main goal of strategic planning process is to achieve greater government focus on results and more efficient management of financial, material and human resources by setting specific targets and expected outcomes. Action strategy of the state institution was set to be a medium-term management document, which becomes an integral component of the institution's medium-term budget planning, thereby harmonizing the planning of strategic objectives and financial resources that are necessary for their implementation. Using action strategy state institutions are planning their performance activities according to their financial capacity that is based on the budget adopted by the Parliament. The main targets and core activities are set based in analyses of institution's internal and external environment and available resources. In order to precisely measure the achievements institutions are defining expected results formulated in a clear definition and ensuring continuity. Results should be consistent with the goals set by the planning documents and only in special cases a change of wording and meaning of the result is acceptable.

Critical importance in implementing the strategic planning system was transition to the medium-term planning system of the state budget which was drafted by the Ministry of Finance. Medium-term budget planning was set to be a process which involves defining state development priorities, fiscal objectives and strategy, budget objectives, priority lines of development and medium-term state budget expenditure. The primary legal act regulating this process was Cabinet Instruction No.8 "Procedure for Medium-term Budget Planning" of 27 August 2002. Amendments to the "Rules of Procedure of the Cabinet of Ministers" adopted in 2005 stipulated that the state budget of 2007 should be drafted in accordance with the structure included in the programme part of ministries' strategic plans. This was intended to ensure integration of sectoral policies used for annual budget application of the respective direct administration institution. Linkage of state budget planning and action strategies was started by the implementation of the Guidelines for Medium-term Budget Planning adopted by the Cabinet of Ministers on 5 April 2005. When developing the basic principles for policy planning, one the most important requirements was compliance with the feasibility principle by linking policy and budget planning. Primary elements of the linking process are a) Procedure for consideration and acceptance of new policy initiatives, b) Institution strategic planning, and c) Medium-term budget planning (The Cabinet of Ministers of the Republic of Latvia, 2012).

It is to be admitted though that the medium-term strategic planning and budgeting system did not work out entirely as it was initially planned and Latvian State Chancellery updated development planning system which is now regulated by Development Planning System Law adopted in Parliament in 2008. The section 9 of this law finally structures the hierarchy of the development planning documents in Latvia defining that in drawing up the development planning documents, they shall be mutually co-ordinated and the long-term conceptual document *The Model for Growth of Latvia: Human Being in the First Place* shall be taken into consideration. The hierarchically highest long-term development planning document is the *Strategy for Sustainable Development of Latvia*. The hierarchically highest medium-term development planning document is the *National Development Plan*.

The medium-term development planning documents are subordinated hierarchically to the long-term development planning documents. The short-term development planning documents are subordinated hierarchically to the medium-term development planning documents. According to the updated system all public administration institutions should develop the Action Strategy for the period of 3 years that serves for the budget planning and allocation.

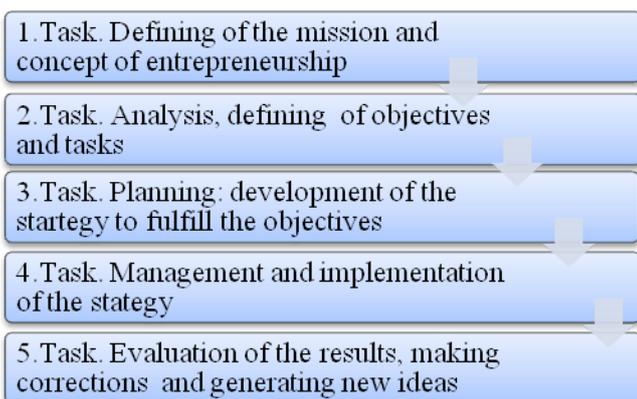
Strategic planning and management in private sector

Strategic planning in private enterprises comes within strategic management and contributes as part of it. Strategic management is focused defining of business mission, the company's development direction, objectives and the resources and long-term management decision-making for implementing the strategy. Strategic management is the future for the company. Each company has to choose its own path of development – that is, determine strategy and tactics. The strategy is the company's long-term program that is developed by establishing the mission, key objectives, evaluating the potential environmental impacts, identification of resources and methods. In the process of developing the strategy, based on the mission and objectives, has to be done strategic planning, analysis what provides management of the strategy and gives necessary conditions for choosing tactics. Tactics is an action program in a given situation, aimed on providing strategic leadership. Tactics are developed in the strategy management process. It is flexible, and is specified for a short period of time.

The company's strategy has to give answers to the following questions:

- 1) How to meet and fulfil customer needs?
- 2) How to get ahead of the competition?
- 3) How to expand the market?
- 4) How to improve the internal environment of the enterprise and organize the structure?

The tasks of strategic management and strategy process steps are shown in Fig.1



**Figure 1. Tasks of strategic management. Source: Made by authors using (Porter, 1986; Mott, 2008; White, 1984)**

- 1) Formulation of the mission. The mission is a general purpose of the company's existence, the declaration of its intents, knowingly and publicly expressed existence of the organization, its nature and status, the reason of existence. It includes the organization's

image and credibility (credo).Credo shows values of the enterprise, etiquette, traditions, what the company promises to deliver. Credo is a codex of actions, which give confidence to consumers. It is made to win consumers and investors' confidence in the company. For example, Procter Gamble company mission is to produce higher quality products that will improve the living standards of people in different countries.

- 2) Goal setting. Companies have different objectives. Every company has its own specific aims and activities but all companies have one common goal - to make a profit by satisfying consumer needs. The aim is the desired result of the business activity.

Company's objectives may be arranged in the order of importance. The aim is to make relationships of managers at all levels. The goal setting is important, because they:

- give a sense of development in the future;
- set out the main lines of development;
- mobilize for new developments;
- give opportunity to evaluate progress.

In formulating the main goal it is very important to focus on the most important, such as the acquisition of independence, income maximization, increase prosperity, wealth building, business retention, etc. Each main objective should be divided the sub-objectives what explains it in detail. For example, the main goal – increasing of turnover could be divided in sub-objectives such as market expansion and price reduction. Specific objectives are divided into two large groups - financial and strategic objectives (see Table 1).

**Table 1. Financial and strategic goals of an enterprise**

Financial goals	Strategic goals
- <b>Rapid growth of income</b>	- Larger market share
- <b>Bigger dividends</b>	- Higher quality
- <b>Stable profit level</b>	- Wide assortment
- <b>Cash flow improvements</b>	- High reputation
- <b>Growth of wages</b>	- High service level

- 3) Establishing the strategy. Goal is the end, but the strategy - a mean, a way how to achieve them. The strategy is a management tool for fulfilling strategic plans and mission execution. It combines the organizational activities the organization's management uses to achieve business objectives.

Specific strategies are developed according to company objectives, taking into account the resources and environmental conditions.

Developing the company's strategy, it is recommended to analyze:

- market opportunities, competition;
- company's experience, ability, resources;
- company's external environmental factors (economic, political, legal, etc.)
- surrounding threats and opportunities of preventing them;
- company's philosophy, spiritual values.

Strategy development is closely linked to strategic planning, combining the company's mission, long-term goals, resources and environmental conditions.

Examples of the strategies are seen in Table 2.

**Table 2. Examples of an enterprise strategy**

Strategy of the enterprise	Marketing strategy
- Growth of the company (attracting investors)	- Market expansion strategy
- Merging of enterprises	- Conquering the market, new product development
- Preservation in current level (maintenance of all levels)	- Market Preservation
- Reduction of the company (selling)	- Product differentiation - diversification (expansion of the assortment, new product introduction)
- Elimination of the company	

4) Strategy implementation and enforcement. In the implementation of strategy it is necessary to determine who will carry out this work and how to achieve the desired result. The main steps in implementing the strategy include:

- Budgeting (diversion of resources to implement the strategy);
- motivation of employees;
- the work environment creation;
- Establishment of information systems and so on.

Strategy implementation is the most complex and time consuming part of strategic management.

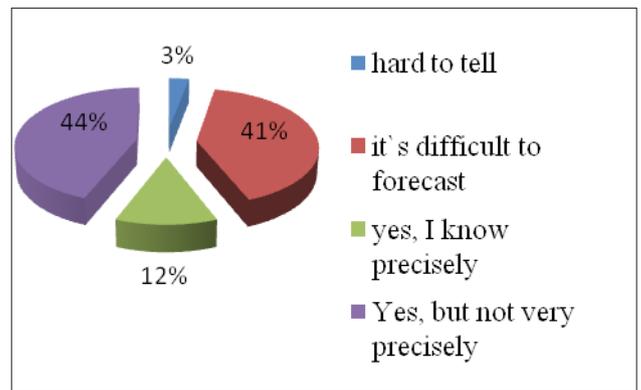
5) Evaluating of the results. With the implementation of the strategy the process does not stop because it requires the evaluation of the results, reality check, adjustments being made, as well as the generation of new ideas.

**Strategic management in private sector in Latvia**

There is a motivated need for case study to link theoretical knowledge with actual situation in Europe described in the abstract of the article. Latvia has been chosen as the case study example and in this subchapter authors will analyse economic situation in Latvia and features of Latvian enterprises.

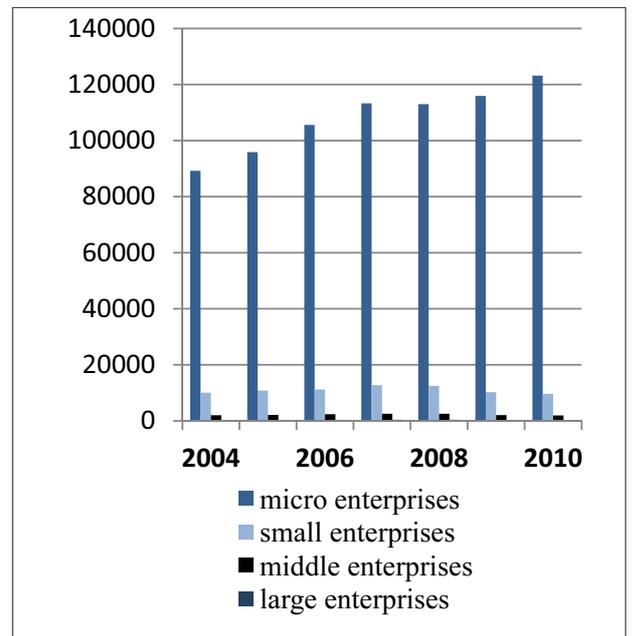
Although there is plenty of information available and several academic and training programs offering tuition in strategic planning and management, there is not enough research about implementing that knowledge in Latvian enterprises. Research shows almost half of all entrepreneurs in Latvia are not informed about strategic vision of their enterprise in five years (see Figure 2).

To the question if there are any goals set in the enterprise, 84% of responders say there are, 10% says there are not and 5% are not informed. Of those who said there are aims set, only 44% admit all employees are aware of them (Caune, Dzedons, 2009). It could be explained in two ways: either goals are commercial secret (but that is not quite correct system as secret could be ways how to enliven goals not themselves) or managers don't think it is necessary to inform employees.



**Figure 2 „Do you have clear vision how your enterprise will look in 5 years”** (Caune, Dzedons, 2009).

Latvia is a part of European Union and therefore has to enliven European Union strategy 2020 fostering sustainable, smart and inclusive growth. Although Latvia has great potential by proportion of educated population, availability of ice-free ports, railway system and banking infrastructure, it has some specific features that have to be taken into account. Latvian business environment right now are at a challenging place as Latvia ranks by global competitiveness index 2010-2011 in 70th place out of 139, the most problematic factors for doing business are tax regulations, inefficient government bureaucracy, financing availability, tax rates, corruption, policy instability and government instability (Schwab, 2011). Latvian GDP per capita amounted to 51% of the EU 27

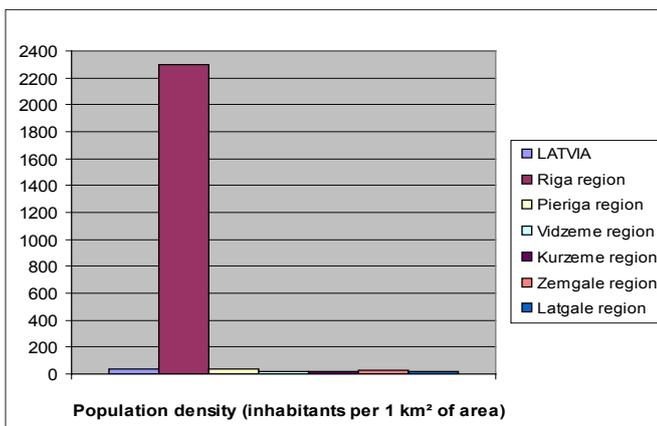


**Figure 3. Market sector economically active statistical units by size in Latvia.** (Central Statistical Bureau, Republic of Latvia, 2010)

average in 2010 (Eurostat, 2010). The unemployment rate was 16.2% in August 2011 in Latvia compared to 9.5% on average in Europe (Greek Reporter, 2011). Poverty rate by age and sex amounted to 21.3% in 2009 (Eurostat, 2011). It is

dramatic in comparison with other countries: Czech Republic (9%), Iceland (9.8%) and also it is higher than the rate in neighbouring countries - Lithuania (20.2%) and Estonia (15.8%) (Statistics Estonia, 2011). Same as in other European Union countries, microenterprise is the most popular form of enterprise contributing 90.15% of all enterprises (Central Statistical Bureau, Republic of Latvia, 2009). As seen in Figure 3, microenterprise numbers are growing and they are not only contributing main part of enterprises for now, but also there is legitimate reason to think situation will be this way further.

One of the reasons why Latvia has sharp social problems are its centripetal from regions to Riga and as the density of population outside of the capital city Riga region is very low (see Figure 4), it creates unsuitable conditions for medium and large business development outside the capital.



**Figure 4. „Administrative division and population density at the beginning of 2011 in Latvia”** (Central Statistical Bureau, Republic of Latvia, 2011)

In authors' opinion, economic situation of Latvia largely bases on micro enterprises what employs most part of the citizens and are foundation of entrepreneurship. In Latvian situation, there more appropriate would be service companies and innovative companies in Latvian cities, but the practice shows a different situation. Looking at the Latvian companies by size groups and the main activity, it shows that only 4 types of micro-enterprises exceed threshold of 5% in 2009: agriculture, forestry and fishing (10.89%), crop and animal production, hunting and related service activities (9.92%), wholesale trade and retail trade, automobile and motorcycle repair (9.61%) and retail trade, except automobiles and motorcycles (5.33%), (Central Statistical Bureau, Republic of Latvia, 2009). This explains why there are lack of strategic planning and management, as research shows that in micro enterprises there tend to be non-existent planning concept comparing to small and medium business where there are planning for business and tax purposes, with some applications to control and decision-making (Asia-Pacific Economic Cooperation, 2003). Latvian entrepreneurs lack historical entrepreneurial experience and often management process is intuitively led. Strategic planning processes in micro and small firms have been found to be unstructured, irregular, and incomprehensive. They are best described as informal; they are almost never written down and are rarely communicated beyond the chief executive's closest associates. Moreover, the

strategic focus in small businesses takes on a more limited time horizon than in large organizations, usually covering periods of two years or less (Papulova, Papulova, 2006).

As it is seen above, situation in Latvia is quite challenging: lack of strategic planning has led to majority of knowledge non-inclusive companies. Statistical data clearly shows that current way of managing enterprises are not effective and there is need for improvement what should be made within the micro enterprises.

#### **Comparison of strategic planning and management in public and private sector**

Significant transformation since early 1990-ies has engendered substantial changes in business conduct and service to its customers in Central and Eastern Europe. Historically, the command-oriented economies did not encourage or emphasize service orientation in enterprises (Lynn, Lytle, Bobek, 2000). It explains why there lacks orientation on client both in enterprises and public services, and in later this lack is enormous. If strengths of public sector in Latvia are its strategic planning skills and resources for developing plans and programs, then weaknesses of it are lack of tactics how to implement plans, correct strategic management and rigidity in action. By improving mind-set to client oriented approach and, even better, proactive approach in long term, great results could be achieved both in client satisfaction and public management effectiveness field. If continuing trend of changing plans every year according to state budget, Latvian society will suffer great damage. The entrepreneurial sector, in opposite, lives day to day having almost no strategic plans. Its strengths are flexibility, ability to adjust fast to demand and environment, awareness of situation and openness to world-wide market. But micro, small and medium enterprises (and Latvia almost doesn't have large enterprises) need to strategize to survive and flourish in the competitive environment unleashed by the liberalization and globalization process. Strategy needs to be implemented through tactics. Most micro, small and medium enterprises who are saddled with day-to-day operational problems tend to adopt tactics without strategic outlook. But they may not survive in the long run. To quote Sun Tzu, "Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat" (Sharma, 2011). For enterprises with short life-cycle a lack of strategic planning results in low quality and low added-value. This tendency contains risk of losing competitiveness to enterprises from other countries and even more deepen already pressing social problems by leaving citizens without work and means for living. But, with smart and careful strategic planning, there is great chance to transfer micro enterprises to seed material for bigger form of enterprises and increase the number of knowledge-intensive companies.

Both sectors should improve their strategic management abilities and realization of plans, keeping in mind the target. Public sector should transfer client-oriented approach, awareness of market demands and current social and entrepreneurial situation, getting more "down to earth" approach; private sector should learn how to make plans, set aims in writing and inform all employees of them, how to delegate duties and create clear vision of who has to do what.

## Conclusions

Strategic planning as an organization development tool as we know it nowadays started to be outlined in mid 1950ies and for more than 30 years was mainly used in private business sector while the concept and performing culture of public administration was developing entirely on the basis of national constitutions and laws. The first trends of using strategic planning and strategic management principles in public administration appeared in late 1980ies. Efficiency's prevalence of private sector over the public administration was proved more than 200 years ago by the father of nowadays' economic theory, Adam Smith, who clearly formulated that "it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest." (Smith, 1776). When an individual pursues his self-interest, he provides more benefits for society than he would if he actually intended to benefit the society. Considering that the greatest teacher of public administration is private sector, this argument does not encourage public administration to work in its own self-interest, but discovers more efficient environment where to find the best management practices, for instance in field of customer care, that can be adopted in a legal and rational way. Today, taking into account that strategic planning and management used in the public sector for well over two decades has become prevalent in governmental jurisdictions at the supranational, national and local levels (Bryson, 1988; Eadie, 1983; Ring, Perry, 1985) and comparing the usage of this tool in public and private sectors it is not that well decided who should learn from whom. There are strengths and weaknesses on both sides.

Customer relationship and effective strategic planning is remarkably topical and still improvable process that is being recognized as good practice of management and at the same time it also makes healthy competition in public administration and private business sector. A lot of public and private sector institutions and companies are very interested in exploration of new ideas and research methods and results in this field. Researching, developing and discovering questions of customer relationship and effective strategic planning, and rapid implementation of solutions have become a true necessity for progress of social, political, and economical processes.

Public sector tends to concentrate on planning function of all management functions. Therefore creating plans and planning are often met disciplines of public sector employees. Weak point in Latvia's praxis is meeting aims set in these plans and implementing the strategy as well as revising it regularly and according to the situation. Strategy exists "on the paper" and is not split in smaller parts for draining it to all the included members. That often results in not meeting goals set in the strategy.

There is also great emphasis on linking strategic planning with state budget planning that often makes the process very formal thus losing the creativity and ambitions towards development itself, whereas in private business sector strategy may sometimes focus strongly on the idea of development thus be very general lacking the linkage with companies resources. Great problem of Latvian entrepreneurs is missing long term vision. Enterprises are surviving day to day but possibilities of growth and qualitative improvement is limited due to lack of the development strategy. Public sector should learn from entrepreneurs how to act with orientation to client

and implement developed strategies within all management functions. Private sector should learn significance of the planning and developing strategies, delegating duties and specifying responsibility.

There is a wide space for improvements for both sectors in Latvia to move the country towards economy of knowledge, generate added value and increase well-being of Latvian society.

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