

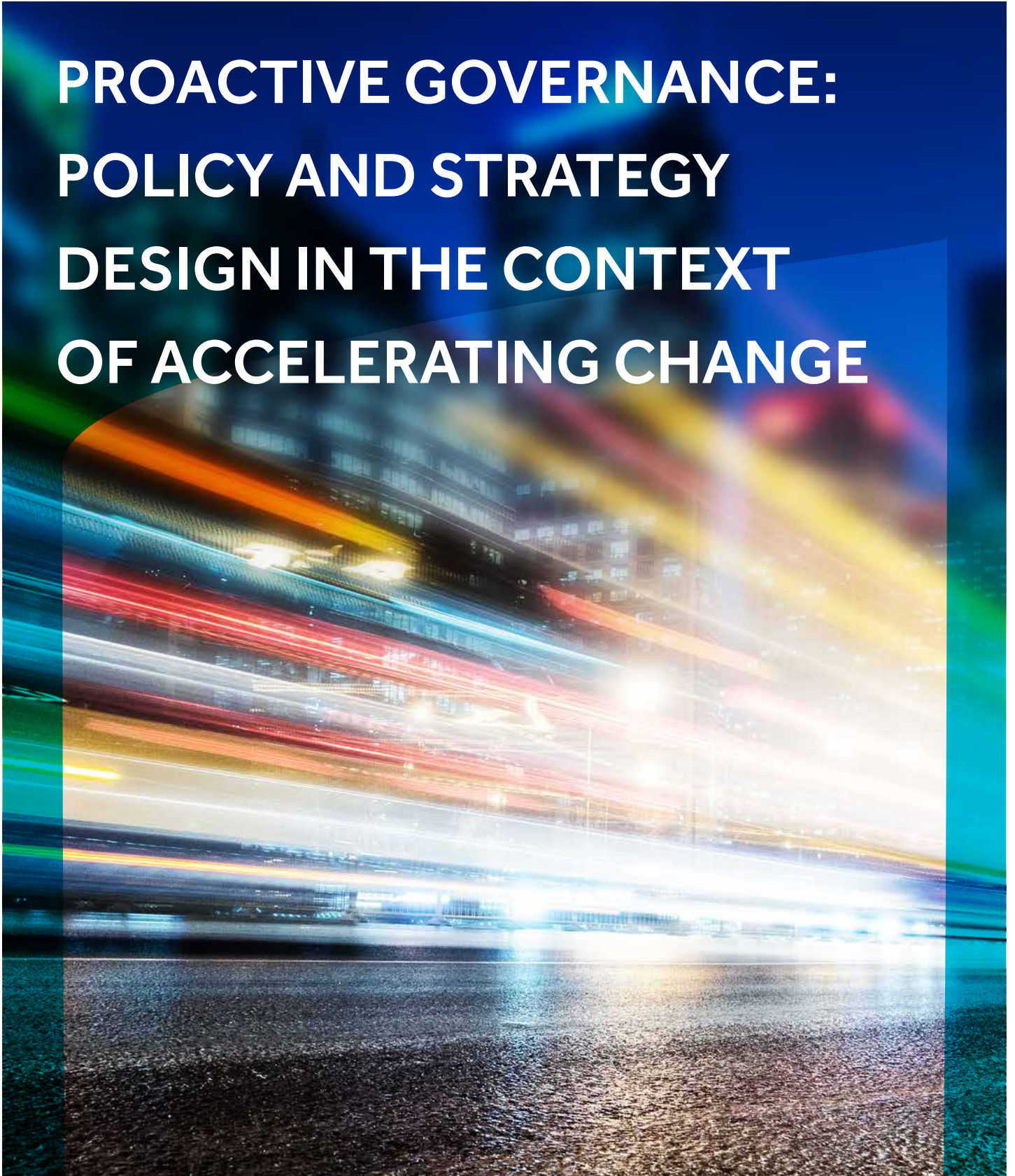


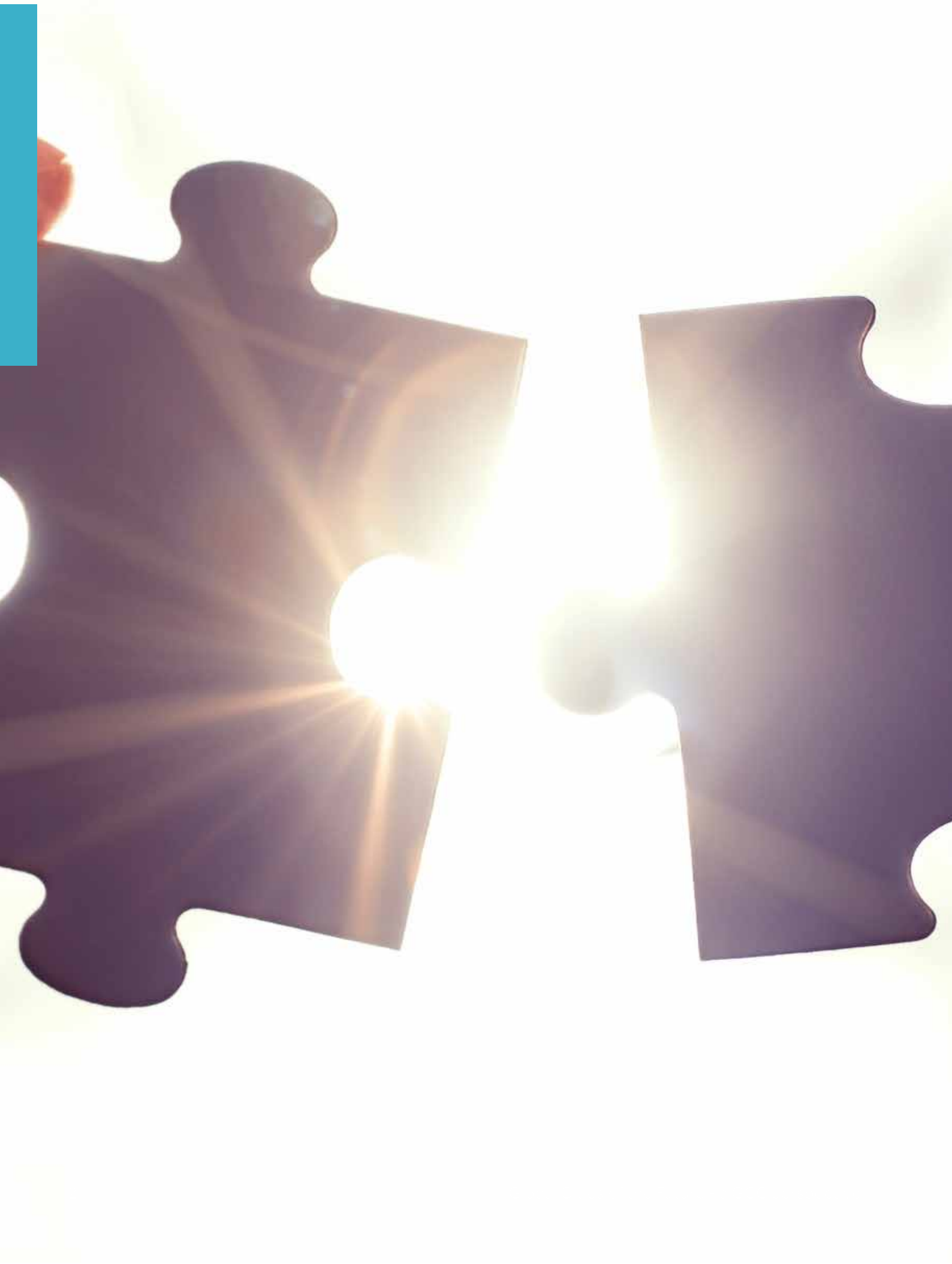
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Global Business Policy Council



PROACTIVE GOVERNANCE: POLICY AND STRATEGY DESIGN IN THE CONTEXT OF ACCELERATING CHANGE





INDEX

- 04** INTRODUCTION
- 04** PART I: THE EVOLVING POLICY AND STRATEGY LANDSCAPE: ASSESSING THE PRIMARY FORCES OF CHANGE
- 12** PART II: ROBUST POLICY AND STRATEGY: THE EMERGING DESIGN REQUIREMENTS
- 15** PART III: TOWARD AN EVOLUTIONARY POLICY AND STRATEGY DESIGN PROCESS
- 22** CONCLUSION

INTRODUCTION

The political volatility we are witnessing around the world is the result of pressures that have been building for decades. These upheavals demonstrate, among other things of course, the growing gap in many countries between citizen expectations and the ability of government institutions to meet them. The combination of growing fiscal constraints and accelerating technological advances driven by the private sector have exposed the brittleness of traditional government structures and processes based on centralized decision-making, internalization of capabilities and an aversion to transparency and competition. Not only do governments that cannot overcome the inertia of these models risk growing irrelevance and diminished legitimacy, they are directly constraining the ability of their societies to keep pace with the changes around them. There is no government function that offers a more powerful opportunity to reverse these dynamics than the policy and strategy development process. In an environment of intensifying evolutionary pressure, public policy must and can generate adaptive capacity by anticipating and harnessing change in the service of citizens and national interests.

This paper links the forces of change shaping the global strategic environment to the resulting design requirements or attributes that policies and strategies must feature to be effective in the emerging

environment and then outlines the core institutional capabilities necessary to meet these requirements. That is, it seeks to answer three fundamental questions:

- What are the forces of change that are most significantly disrupting the strategic environment facing policy-makers?
- What are the new requirements that individual policies and strategies must increasingly meet, what new attributes must they feature to be effective in the emerging environment?
- What institutional capabilities do governments require in order to be able to create consistently policies and strategies that meet these daunting requirements?

While there is no single model applicable to all government entities, there are a number of emerging capabilities and process design elements that leaders across geographies and levels of government will benefit from considering in order to build institutional resilience, advance national interests and drive societal progress. Building this capacity for proactive governance will be of decisive importance in what will be both an increasingly competitive and volatile world and one driven by innovation and rich in opportunities for those disciplined enough to seize them.

PART I: THE EVOLVING POLICY AND STRATEGY LANDSCAPE: ASSESSING THE PRIMARY FORCES OF CHANGE

The strategic operating environment facing government decision-makers is in the midst of arguably unprecedented disruption. Given the sheer velocity of change, leaders responsible for developing and implementing public policy and strategy must assess the future environment as potentially radically distinct from the present. This is a function of the very essence of policy-making. Policy and strategy both serve to guide complex actions across diverse stakeholders to achieve a set of desired outcomes in the future. Before we explore the ways in which the policy and strategy development environment are changing for government leaders, it will be useful to

begin with working definitions of these two terms provisionally for the purposes of this paper.

A “policy” generally refers to a principle or guidance mechanism for decisions. For the purposes of this paper and the government context on which it is focused, policy can be defined as the official guiding orientation or position of a state with respect to a given issue or set of issues. Policy ‘software’ can be instantiated in laws, rules, the speeches of the heads of institutions (policy-makers) and various other forms, public or non-public. Policy defines the parameters within which a given government will act (reactively

or proactively) with respect to a given issue. It may include goals and the means and resources that will be used to achieve them, but those are not central to its definition.

Strategy is an overused term and an under-practiced discipline. It is too often used to mean simply “how” to do anything intentionally. To avoid this error, the term is distinguished here by four defining requirements. First, strategy pertains to choices of specifically long-term consequence. Second, a decision can be meaningfully said to be strategic only if it bears a significant relationship to a given mission or central purpose consisting of multiple linked activities. In contrast, the term tactics is reserved for issues of primarily only near-term direct consequence and those only partially or peripherally related to a central purpose or mission. Third, strategy is intrinsically perspectival; that is, it requires a defined acting ‘subject’ with a specific perspective and set of interests. Finally, strategy pertains in all cases to actual choices and prioritization. The classic test of this criterion is to ask if the opposite of a given “strategy” represents a plausible choice. Thus by this test, a decision to “improve performance” is not a strategic choice, as its opposite (“degrade performance”) is not a plausible course of action (see figure 1).

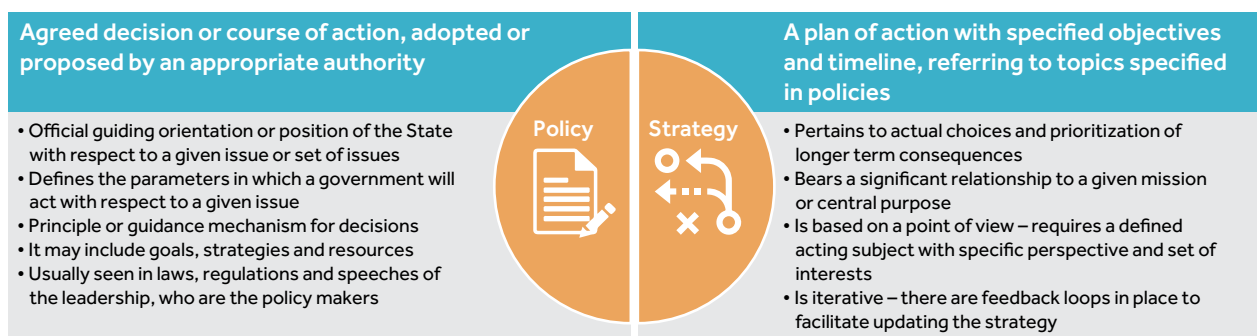
goals and objectives will be achieved (in particular based on explicit consideration of internal resources and external conditions). Although not central to the definition, strategy also ideally includes monitoring performance against objectives and adapting accordingly. Strategy often necessarily and correctly overlaps with policy (as defined above) in the definition of goals and objectives.

“The world that is rising is still half buried beneath the debris of the world that has fallen, and amid the immense confusion of human affairs, no one can say what will remain of old institutions and mores and what will eventually disappear.”

Alexis De Tocqueville

The development of policy and strategy would be highly challenging even in a world of perfect information, rational actors and predictable operating conditions given the sheer technical complexity decision-makers must increasingly address. We, however, do not live in such a world. The current and future policy environment is defined by growing complexity and

Figure 1
Definition of policy and strategy¹

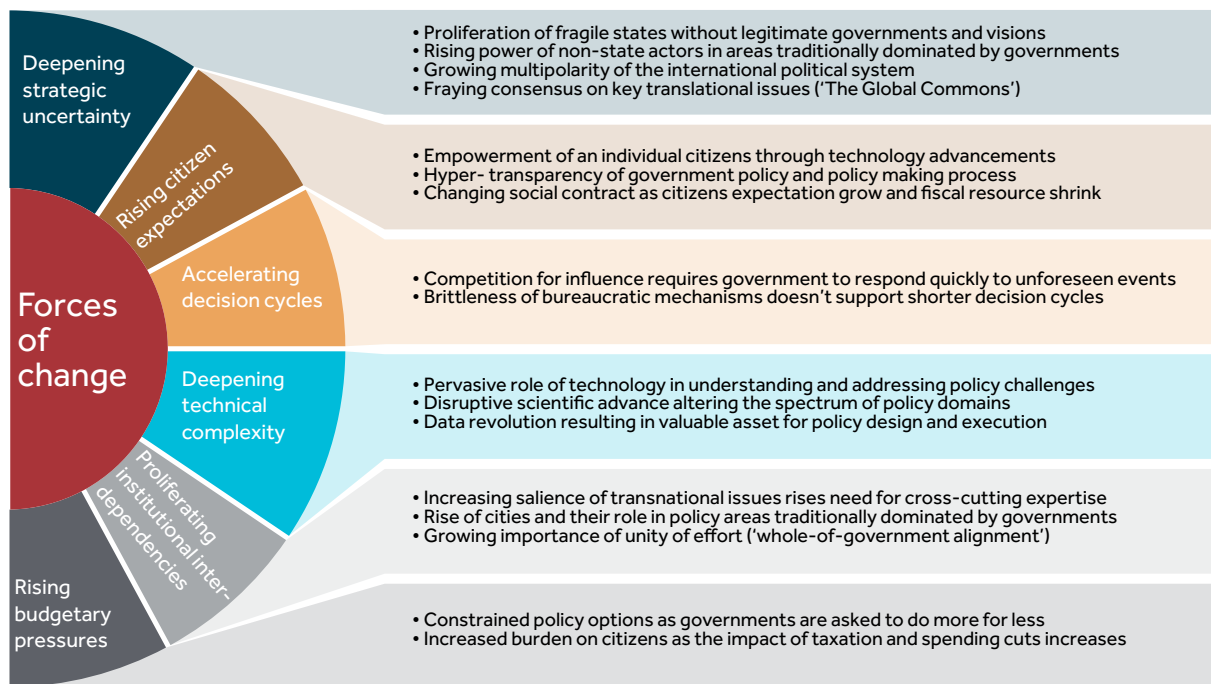


1. The terms policies and strategies are interpreted in many ways. The description above is based on the conventional Western understanding
Source: A.T. Kearney analysis

Thus, policy sets guiding orientation and the bounding parameters of action while strategy defines how the intended outcomes will be achieved within those parameters. In functional terms, again for the purposes of this paper, strategy development is the process of: (a) defining goals and objectives; (b) prioritizing among them; and (c) designing and planning the actions and investments by which those

continuous novel change that is intrinsically beyond the reach of prediction. Specifically, the forces of change most radically disrupting the environment facing government leaders include the six dimensions below (see figure 2 page 6).

Figure 2
Primary forces of change in policy and strategy landscape



Source: A.T. Kearney analysis

Deepening Strategic Uncertainty

The world has entered a period of geopolitical, macro-economic and societal transition in which established yet brittle systems of order are decaying more rapidly than new systems are emerging. The result is an increase in strategic uncertainty across domains as the incentives and power relationships that once structured events change, making policy dynamics increasingly difficult to predict. In addition, the ongoing revolution in digital technology and global connectivity has made previously segregated issues increasingly interlinked. These new intersections of issues are intrinsically complex. For example, climate change and the increasing frequency of extreme weather events that is accompanying it will continue to drive volatility in food prices and availability, which may drive political instability in a range of countries, which may alter regional geopolitical dynamics. For government leaders responsible for policy and strategy development, the following drivers of strategic uncertainty merit special attention:

- **Proliferating Fragile States:** The pace of change and the intensity of global competition will continue to result to place weak states at risk of collapse. The process of state failure is inherently unpredictable

and a key driver of uncertainty not just for the countries in question, but also for the regions of which they are part as migration flows, disease vectors and cross-border conflict disrupt established patterns.

- **The Rising Power of Non-State Actors:** As the disruption of the traditional international political order of nation states accelerates and technology reduces the cost of coordinated action, a range of non-state actors, from multi-national corporations to transnational networks and international political movements, will become increasingly influential with respect to policy domains traditionally dominated by governments. To a large extent, these actors play by their own rules, often operating in the seams between established legal and regulatory systems. They are thus, by definition, freer to act and less predictable than established public entities.
- **Growing Multi-Polarity:** The world is in the midst of an unstable transition from a relatively stable bi-polar and then unipolar international system to one that is increasingly multi-polar as China, Russia, India and a host of rising regional powers rapidly increase their relative power. Historically, such peri-



ods of transition have been geopolitically unstable as rising powers seek to alter existing international norms while incumbent powers seek to preserve them. The current tensions between China, the United States and ASEAN in the South China Sea exemplify the unstable dynamics that are likely to become increasingly widespread.

- **Fraying Consensus on the Global Commons:** It is increasingly the case that virtually all domains of public policy and government strategy have international dimensions. In this environment, international law and the institutions of global governance have played a vital role in bringing stability to the interactions between states. However, as geopolitical competition intensifies and economic inequality continues to rise, the strategic priorities of countries are more likely to diverge. A consequence of this trend may well be a diminishing global consensus on key transnational issues from climate change and cyber-security to the proliferation of weapons of mass destruction and international terrorism. In such an environment, managing these vitally important issues of the global commons is likely to become increasingly difficult making the policy domains linked to them ever more uncertain.

“In the 21st century power is easier to get, harder to use – and easier to lose. From boardrooms and combat zones to cyberspace, battles for power are as intense as ever, but they are yielding diminishing returns.”

Moisés Naím, The End of Power

Rising Citizen Expectations

For policy-makers, the rising expectations and power of citizens represents a fundamental disruption of traditional approaches to policy and strategy development. Advancement in education levels, the rise of the non-profit sector and the integration of the global information environment have empowered and enabled citizens to see and compare the performance of their governments with those of others to an unprecedented degree. In addition, as the advanced consumer economy has spread around the world, expected standards of performance in terms of customer service, quality, speed and much else have risen inexorably. For government leaders responsible

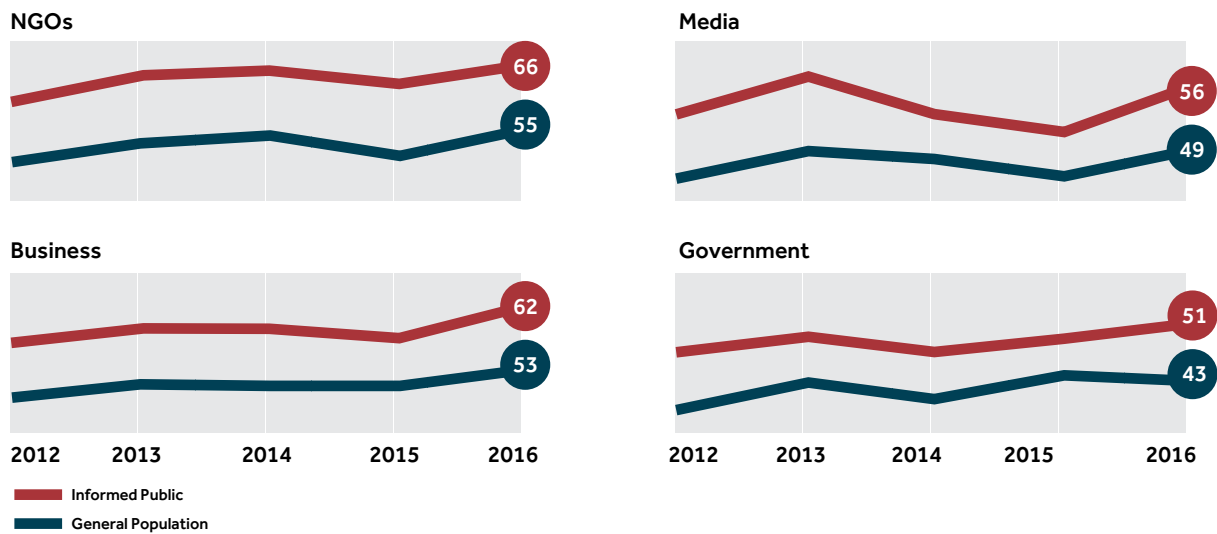
for policy and strategy development, several aspects of this trend are particularly important:

- **Individual Empowerment:** Technology has vastly increased the power of individual citizens in many countries by providing unprecedented access to knowledge, computing power and broadcast communications. For policy-makers, this trend is greatly increasing the strategic importance of every citizen interaction, as an individual case can now rapidly become a globally trending story.
- **Hyper-Transparency:** The accelerating proliferation of networked interest groups, “whistle blowers,” state-funded and independent hackers and others have given citizens every deeper visibility into the processes of policy development and execution. The sophistication of these new forms of networked scrutiny will continue to rise despite the efforts of many governments to suppress it. Other governments have embraced and harnessed this force through e-governance innovations to improve awareness, responsiveness and performance while fighting corruption. Proactive governance demands that policy processes feature deeper degrees of stakeholder participation and transparency, particularly in the design phase.
- **Changing Social Contract:** As societies manage the accelerating and hyper-competitive transition to a new economic landscape, citizens are under rising pressure. Their needs in terms of education, unemployment assistance, job training, health insurance and much else are increasing just as governments around the world face growing fiscal challenges (see below). At the same time, citizens often do not understand the technical issues associated with given policies sufficiently to realize the trade-offs they require. In parallel, politicians have strong incentives to make promises to citizens that they cannot actually fulfill. Taken together, these dynamics have created a crisis of trust in government institutions in many countries. As a result, for those who must design and implement policy and strategy, aligning citizen expectations with reality is becoming an ever more central imperative (see figure 3 page 9).

Accelerating Decision Cycles

Across public and private sector domains, the decision cycles facing senior executives is accelerating dramatically. This pattern is a function of many factors including the rising speed and diminishing

Figure 3
Trust in government institutions



Source: A.T. Kearney analysis

cost of communication, the rise of global social media and the 7/24 news cycle, and intensity of competition among institutions of all types to set the narratives that define how events are interpreted.

While policy and strategy development are deliberate processes, they increasingly must be executed in tighter timeframes and must yield outputs that do not constrain decision-makers in sub-optimal ways. Within this trend of accelerating decision cycles are two dynamics of particular relevance:

- Competition for Influence:** The world is in the midst of a structural transition from a relatively stable international order to one characterized by the diffusion of power across a wide array of strategic actors and intensifying competition among them. As Moisés Naím puts it in his recent book *The End of Power*, “In the 21st century power is easier to get, harder to use – and easier to lose. From boardrooms and combat zones to cyberspace, battles for power are as intense as ever, but they are yielding diminishing returns.” Whereas once nation-states and multi-national corporations were predominant in many domains, we are witnessing a proliferation of strategic actors that includes globally networked organizations, transnational technology platforms and increasingly empowered individuals. Governments must increasingly compete for influence over the public outcomes they are mandated to achieve

with a diverse range of actors often capable of much more rapid decision-making and action. The fast-paced intensity of competition makes the ability to formulate policy and strategy quickly a key determinant of strategic advantage or disadvantage. While full policy development and strategic planning processes will continue to be deliberate activities for the most part, in a world in which leaders must respond rapidly to unforeseen events, having the ability to rapidly formulate policy positions and strategic direction will be critical to protecting the interests of its citizens.

- Brittleness of Policy Mechanisms:** In many governments, the legacy bureaucratic decision-making structures have not evolved in decades and are too slow to meet the demands of the emerging environment. For policy-makers, this creates a singular challenge as they must not only design policies that meet the requirements of a given issue, but must also consider whether the supporting institutional structures can effectively carry the policy or strategy out. All too often, bureaucratic decision making mechanisms do not support shorter decision cycles.

Deepening Technical Complexity

The days when elite teams of generalists could design policy and strategy effectively are long gone. As human knowledge in the social and physical sciences has deepened and the technical and technological

sophistication of our policy instruments has advanced, the sheer number of and complex interrelationships between the levers of policy have skyrocketed. As a result, the design of policy and strategy simply can no longer be credibly conducted without substantive inclusion of relevant technological and scientific knowledge, if it ever could. The knowledge requirements of these processes will increase exponentially in coming years. Several dynamics within this trend are particularly important:

- **The Pervasive Role of Technology:** Technology is increasingly penetrating every aspect of society, becoming a key factor both in understanding any given policy challenge and in addressing it. Every domain of public policy now features central technological factors from transportation, where autonomous vehicles and advanced energy monitoring are disrupting decades of established assumptions, to diplomacy, where social network analysis and social media are now essential instruments.
- **Disruptive Scientific Advance:** Advances in both the physical and social sciences continue to accelerate, driven by both growing accessibility of scientific training and the increasing importance of science-based competition. As in the case of technology, scientific advance is altering the full spectrum of policy domains from agriculture to public health, creating a need for scientific expertise that no single institution can retain internally.
- **The Data Revolution:** Finally, the saturation of the world in sensors and the resulting explosion of data has created a growing knowledge asset of tremendous value for the design of policy and strategy. However, the data scientists capable of extracting value from this data are rapidly becoming an extremely expensive resource.

Proliferating Institutional Interdependencies

Policy-makers must manage ever more complex institutional interdependences today's deeply interconnected world. As issue domains have become increasingly multi-disciplinary, effective policy increasingly requires the knowledge and capabilities of a range of government entities. A number of factors will continue to drive this trend:

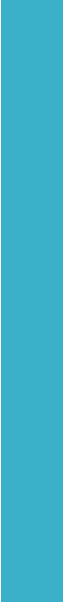
- **Increasing Salience of Transnational Issues:** There are few domains of public policy remaining that are exclusively domestic in character or scope. Global-

ization has fundamentally blurred the line between domestic policy and international policy. In our interconnected global economy, policy domains from agriculture, public health and the environment to education, transportation and labor all now have key global dimensions. As the complexity of challenges has increased, understanding issues and creating strategic leverage in addressing them requires the expertise and operational capabilities of many government ministries.

- **Rise of Cities in Governance:** Globally, cities are becoming increasingly important arbiters of political power. As the world becomes ever more urbanized and as networks of cities become increasingly integrated, cities will play a decisive role in an ever wider range of policy arenas that were previously the sole province of national government. As a result, policy design must increasingly consider the role city governments can play in achieving any intended outcome.
- **The Growing Importance of Unity of Effort:** Finally, in the increasingly challenging external environment facing policy-makers and given the ever more fiscally constrained budgetary environment, governments around the world can no longer afford to waste effort or resources. They must minimize wasteful duplication of effort, overlapping activities and dilution of resources across too many priorities through integrated and disciplined strategic management. This, however, is not enough. To be effective, they must maximize the power of aligned action and collaboration through unified policy and strategy design processes. Policies and strategies that lack whole-of-government alignment and the concentration of force and integrated depth of knowledge and expertise that it enables will be increasingly unlikely to achieve their objectives.

Rising Budgetary Pressure

Finally, at all levels of government and nearly all regions of the world, governments are facing intensifying fiscal pressure as they are asked to do more with less. This trend a function of slowing economic growth in many regions, aging demographics in the advanced economies, ongoing austerity programs, large debt burdens and resulting austerity requirements and much else. This trend is of obviously existential importance to policy-makers as it becomes more difficult each year to solve problems by simply reallocating resources. For many governments, long-term fiscal challenges will continue to weaken their perceived legitimacy



by constraining their policy options. The burden of taxation and spending cuts, particularly in advanced economies, will increasingly fall on citizens. As a result, the emerging global policy environment will require dramatically more sophisticated approaches to the prioritization of investment and the execution of policy and strategy.

Together, these six forces will largely define the future operating environment within which policies and strategies developed today must function. To be effective in these conditions, many of which are already upon us, government policies and strategies must meet a new set of design requirements – and there is no time to lose.

PART II: ROBUST POLICY AND STRATEGY: THE EMERGING DESIGN REQUIREMENTS

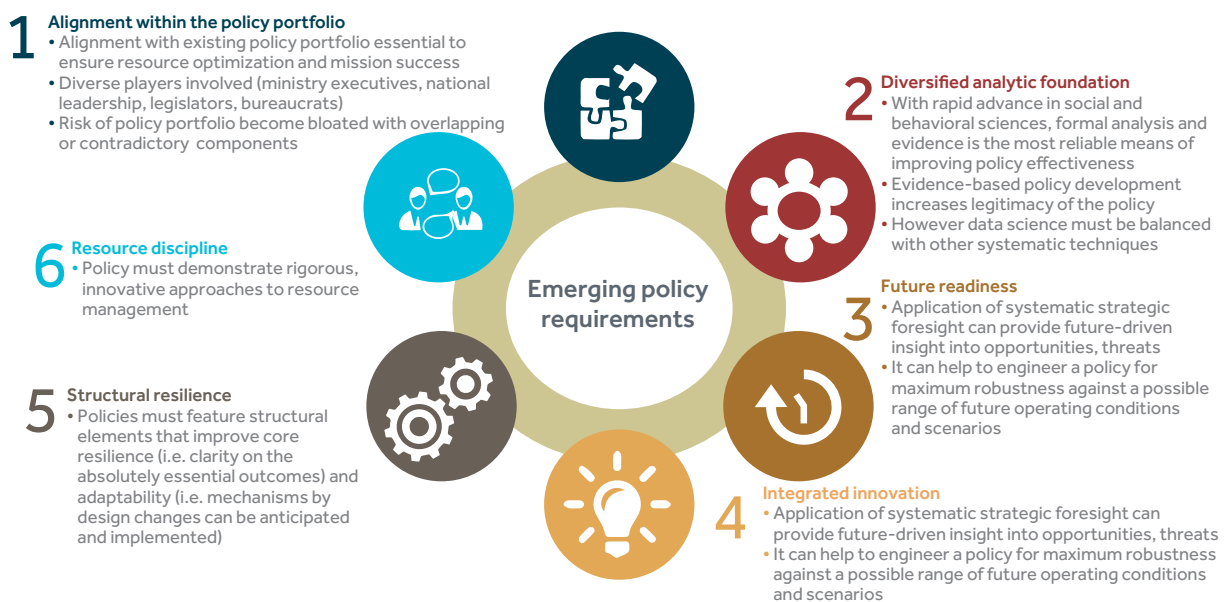
Despite the immense diversity of the universe of policies and strategies, the forces of change shaping the emerging landscape do reveal a number of new policy and strategy requirements that are of clear, cross-cutting relevance. Although not exhaustive, what follows are a set of requirements that, taken together, represent a checklist of features against which policies and strategies can be productively assessed to gauge their long-term effectiveness and robustness (see figure 4).

Alignment within the Policy Portfolio

The impetus for a government organization to create a policy or strategy can come from a wide range of sources. Legislative processes, senior ministry executives, national leadership and internal bureaucratic processes all can initiate or shape the

policy development process. This has always been the case. What has changed dramatically, however, is the extent to which previously distinct policy and strategy domains now intersect (e.g., domestic food policy and international policy regarding climate change, etc.) and the extent to which each policy and strategy is becoming increasingly multi-disciplinary in scope and design. Thus, while the necessary diversity and interconnectedness of players in the policy process expands, they are very often not in alignment. This is perennial challenge of government that is becoming ever more significant. For any given strategic issue, the coordinating mechanisms between them are often uneven at best. This is even more true over time, as policies of a given government organization accumulate across generations of leaders who lack deep awareness of the entire portfolio of policies

Figure 4
Emerging requirements for a robust policy



Source: A.T. Kearney analysis

and strategies in place. The result is often that, over time, these critically important portfolios can become bloated with overlapping, sometimes even contradictory components.

In the fiscally constrained and intensely competitive environment facing governments around the world, policies portfolios that are sub-optimized in these ways represent a significant strategic liability. They increase the risk of not only of wasted resource and duplication of effort, but also of mission failure. As a result, a key initial requirement of a robust policy or strategy is to ensure its alignment with the existing portfolio. This requirement has several components. The first is clarity of strategic intent. In a hyper-complex environment of intersecting issues and competing institutions, for a policy to be relevant and effective it must be focused on a very clear intent defined in terms of well-specified outcomes. Second, before the policy or strategy development process begins, its defined intent and scope must be tested against the current portfolio. Based on this analysis, it is likely that either its content or that of other existing policies will have to be refined to optimize their performance as a portfolio. In doing so, prioritization must be based on current circumstances, constrained by the “tyranny of the present.” Instead, prioritization criteria must be future-driven at all levels.

Diversified Analytic Foundations

We are living in a period of rapid advance in the social and behavioral sciences. As the global community of academic institutions grows and as policy-relevant data proliferates, our ability to gauge the likely effectiveness of any given policy intervention is steadily improving. Thus, it is more possible than ever to design policy and strategy based on formal analysis and evidence. The most fundamental benefit of doing so, of course, is that it is the most reliable means of improving policy effectiveness. However, arguably more important, evidence-based policy development serves other critical purposes in a world of increasing political polarization and policy transparency. Evidence provides a means of diffusing what can often be unproductive political debate, by redirecting focus toward the facts. In addition, it enables citizens and other stakeholders to have confidence that the policy is not arbitrary or designed to serve special interests. By increasing the legitimacy of the policy or strategy, evidence-based analysis increases the likelihood that it will be embraced by the people that it affects. Of course, analytic rigor is not equivalent to empirical rigor. Focus on data to the exclusion of other techniques of analysis can result in a comforting, but

false certainty. The desire for quantitative “certainty” can cause policy analysts to focus on the factors where such precision is possible – whether or not those factors are in fact most relevant. Thus, it is critically important to avoid “the tyranny of logarithms” and the blindspots it can create by balancing data science with other systematic techniques as outlined in the following section.

Future-Readiness

In an environment of rapidly deepening strategic uncertainty, a critical means of increasing the effectiveness of policy and strategy is through the application of systematic strategic foresight in both the identification of policy requirements and the design of policy and strategy. Strategic foresight consists of techniques for analyzing, prioritizing and facilitating the use of the most relevant characteristics of the future operating environment. Its purpose, in this context, is to maximize the extent to which policies and strategies are informed by prioritized awareness of the current and future and operating environment and the long-term interests of citizens in that environment. Foresight provides specifically future-driven insight into both opportunities and threats – as well as the evolving national interest. Its premise is that while the future cannot be predicted, its uncertainty can and must be analytically managed – even leveraged where possible. As Niall Ferguson has argued in a recent essay regarding the Arab Spring, “...the very essence of rigorous strategic thinking is to devise such...scenario[s] and to think through the best responses to them, preferably two or three moves ahead of actual or potential adversaries. It is only by doing these things—ranking priorities and gaming scenarios—that a coherent foreign policy can be made.” Foresight instruments can drive a more proactive approach to policy design and execution that maximizes leverage by enabling the initiation of policy development early in the evolution of an issue – when relatively small actions can have maximum effect. In addition, by building foresight into the design process, policy and strategy can be engineered for maximum robustness with respect to the likely range of future operating conditions.

Integrated Innovation

When assessing the future strategic operating environment, there is a tendency to focus on its challenges. We are indeed in a period of rising geopolitical uncertainty, intensifying strains on the resource nexus of energy, water, food and the climate, a range of demographic challenges and much else. In the government context, focus on these and other

challenges often results in insufficient focus on an equally important set of opportunities, namely the explosion of disruptive solutions increasingly available to policy-makers. Many dimensions of technological advance, notably the proliferation of connective technologies and the democratization of knowledge, are being transformed into wholly new solutions to long-standing policy challenges. For example, Kenya had long struggled to understand the structure and condition of its national networks of schools. In partnership with Google and through the application of geo-located, crowdsourced photos, Kenya was able to map and photographically document its schools in a remarkably short period of time, turning what would have once been a multi-year project into one requiring only weeks. Given this growing universe of new solutions, there is a vast opportunity for government planners to systematically seek to leverage innovation in the design of policy and strategy as a means of improving impact and efficiency. In the technology-saturated, ever more transparent environment we are entering, policies and strategies that do not exploit innovation appropriately will rapidly lose legitimacy and be at risk of irrelevance. Of course, policy innovation is not limited to technology, but also includes new structural approaches such as “shared value” models, distributed use of networks of social entrepreneurs, and much more. What is essential is that the policy and strategy design process create and defend space for identifying these opportunities systematically and consistently.

Structural Resilience

In the context of accelerating, novel change, policy and strategy must increasingly feature structural elements that improve both core resilience and adaptability. The design requirement centers specifically on two elements. First, once the intended outcomes of a given policy have been defined, they must be prioritized to identify those that are absolutely essential. For example, a regional water policy might include components that support the economic development of the region through the allocation of water infrastructure projects and educational components for increasing awareness of water management, but is core, most essential requirement is to build a key city’s resilience with respect to attacks on its water systems in case of conflict. Thus, to build structural resilience, the policy design must ensure that its core elements are prioritized in resourcing and execution timing and

are sustainable even in adverse circumstances (e.g., conflict, natural disaster, sudden resource constraints, etc.) in which second order functions or priorities of the policy are no longer viable. Second, to the extent possible, policies must include mechanisms by which relevant change is anticipated and corresponding design changes can be rapidly implemented. To return to our example, imagine that an innovation emerges in another region of the world that makes distributed water purification dramatically more cost effective. A structurally resilient policy will include means by which such a development is identified (e.g., by partnering with a government foresight entity to scan for and report on developments in water innovation) and then built into the policy design appropriately. These structural steps to anticipate and act on change is the central requirement of designing adaptive policy.

Resource Discipline

Finally, in an ever more fiscally constrained environment for many governments around the world, policy and strategy must increasingly demonstrate rigorous, innovative approaches to resource management. Central to this is an unwavering commitment to understanding the purpose and intended benefit of a given policy and translating that into a return on investment construct comprehensible to citizens and other stakeholders. Of course, “return” in a government context is not denominated exclusively or even primarily in financial terms, but this is no excuse for not defining why the policy merits implementation in quantified terms. Public goods can and must be analyzed in ways that enable them to be understood and estimated analytically. This is a vital means of ensuring the value, legitimacy and long term effectiveness of policy and strategy – now and increasingly in the future.

Policies and strategies that meet these requirements will not only be most likely to achieve their intended outcomes with respect to the known challenges on which they are centered, but also will be resilient, adaptive and sustainable with respect to the unknown shocks and structural changes to which they will inevitably be exposed over time.

PART III: TOWARD AN EVOLUTIONARY POLICY AND STRATEGY DESIGN PROCESS

Consistently creating policies and strategies that meet these emerging requirements demands new approaches to prioritizing, designing and executing them. While the specific approach to institutionalizing policy and strategy design processes necessarily varies by country, there is a core set of capabilities, or building blocks, that merit close consideration by the full spectrum of policy-making institutions. In this section of the paper, we present 11 core capabilities that can be integrated and applied in different ways depending on the maturity of the organization and the nature of the policy requirement. Taken together, these capabilities represent a framework or checklist for assessing and improving the ability of any government organization to consistently design focused, innovative and resilient

policies and strategies in the context of accelerating change and deepening complexity.

As discussed earlier, the necessary foundation of the policy and strategy design process is the formal definition of the policy or strategy, including framing of the problem, definition of strategic intent and scope and capture of all initial requirements. For the purposes of this paper, it is this initial, documented definition of the required policy or strategy that triggers the iterative design process. What follows are the 11 core capabilities that will be increasingly critical to taking a policy from that clear definition to full, robust realization (see figure 5).

Figure 5
The core capabilities of proactive governance



Source: A.T. Kearney analysis

- **Establishing and Deepening the Analytic Baseline:** Data-driven policy analysis has a long history – and an uneven track record. The best documented case study of its power and risks is the tenure of Robert McNamara as U.S. Secretary of Defense during the Vietnam War . He brought together many of the best minds in the country to conduct rigorous empirical analysis. Despite many successes along the way, the exclusive focus on quantitative precision contributed to large-scale strategic errors of tragic consequence. The case McNamara’s Pentagon does not diminish the power and value of data science, but it does demonstrate the importance of including it as only one part of portfolio of analytic techniques to minimize blindspots.

In the 50 years since that much-studied case, the world has become increasingly saturated with data. As a result, quite appropriately, formal econometric analysis has become a core requirement of policy analysis and design. Even prior to conducting any form of sophisticated statistical analysis, a first step in the policy design build is to create a carefully validated baseline of established data regarding the intended policy. Creating this shared and agreed map of the current reality of the situation (also called a “common operating picture”) is the essential starting point of analysis and stakeholder alignment. However, it is now more possible than ever before to move well beyond this present moment snapshot. The availability of ever larger data sets, more powerful computers and increasingly sophisticated algorithms is creating unprecedented opportunities for policy-makers to model potential policy impacts and refine designs accordingly. Predictive policing is a powerful and controversial example of these techniques. While it remains true that these tools can only ever be part of a balanced analytic toolset, their range of applicability is growing.

There are two key junctures in the design process at which the value of empirical analysis (e.g., econometrics, big data and predictive analytics, etc.) are

“People respond to feedback; for instance, someone designed light bulbs that glow darker shades of red as homes use higher levels of energy...Such devices helped reduce energy use in peak periods by 40 percent in Southern California.”

Richard Thaler, University of Chicago

most valuable to policy-makers. The first is the initial design of the core policy components. Doing this effectively requires the ability to scan the academic literature for all relevant, peer-reviewed analysis of the given policy domain to understand the policy levers that have been demonstrated to be most effective across a range of circumstances.

The second is building into the policy or strategy design the ability to rigorously monitor, measure and analyze its effectiveness as a whole and at the component level. The monitoring and measurement process requirements are discussed later in this paper. In this context, we are referring to the design and use of systems for capturing valuable, high-resolution data. For example, in the case of port security policy this might include the planned use of sensor requirements and the technologies that enable the Internet of Things (IoT) to monitor and analyze the flows of materials and vehicles. In a military stabilization and reconstruction mission, building measurability into the design of the approach might entail identify management requirements to understand the flow of people in and out of a protected area.

In some cases, depending on the sensitivity of the domain, government decision-makers also will increasingly have opportunities to make policy-relevant data sets available to the public and/or more limited groups of experts to drive transparency and innovation. A growing number of companies, such as Innocentive, are able to orchestrate challenges or competitions through which pre-qualified experts are given access to data sets and asked to solve a policy challenge. In addition to driving policy innovation, such technology-driven transparency can be a powerful means of building citizen trust in a period when it is increasingly at risk.

- **Policy Prototyping:** Growing fiscal constraints, compressing decision cycles and the demand for citizen-centered innovation are making many of the established best practices of start-ups extremely relevant to government institutions. In particular, the application of “rapid prototyping” techniques hold tremendous promise for policy design. This involves designing strategic experiments, or policy pilots, in which the critical elements of a given policy are introduced on a limited basis to test key assumptions, measure performance and capture design refinements. These pilots provide an opportunity to generate evidence to inform policy design and to verify, or correct, assumptions made before

any practical experience is available. As a result, policy pilots serve a key role in ‘evidence-based policy making’. Ideally, a policy design process should incorporate a strategy to test the policy design and re-evaluate it according to pilot results.

Pilots can help to eliminate preventable flaws from a policy before it is comprehensively rolled-out. They also provide a protective space for policy innovations, which otherwise might be excluded from consideration due to risk. The small scale and experimental nature of pilots allows governments to incorporate innovative and green-field ideas in policy design and test their impact before particular policy decision is taken. Methodologically, these are in essence randomized field experiments in which policy outcomes are observed for a policy intervention group and a control group to understand and ideally quantify impact. In addition to clear analytic benefits, this approach can also support consensus building. Policy is often – and ideally – designed in the face of robust legislative debate and public scrutiny. By demonstrating the positive impact of a particular policy on a smaller, but statistically significant scale, pilots facilitate national consensus around the policy design, increase the likelihood of policy approval by the national legislature and can serve to build understanding about the policy consequences among the public.

- **Conducting Systematic Strategic Foresight:** In order to consistently generate policy and strategy that is not only future-ready, but future-driven, it is necessary to build systematic strategic foresight directly into the design process. Each policy and strategy with long-term consequences should go through a process by which its requirements and design are considered and tested against the range of future conditions most likely to be of relevance to it. That is, foresight is both a powerful means of driving policy innovation at the outset of the design process and a key part of “strategic due diligence” by which the future resilience of a strategy is tested and refined before implementation.

The first and most basic step in this process is trends analysis, by which the policy requirements and design are considered in relation to a comprehensive set of trends determined to be of high relevance to the institution. For example, consider the design of long-term port security policy or strategy. The trends checklist process would likely yield the steady advance of IoT as a critically relevant factor

to build into the approach from the outset as a means of maximizing security and efficiency in the long-term as the technology matures globally. The analysis might suggest that key port stakeholders be required to adopt interoperable IoT standards to ensure seamless integration.

Even more valuable is the use of scenarios in policy design. While there are many applications of scenarios, the key initial requirement is development of rigorous set of formal analytic scenarios that – as a set – demarcate the space of future uncertainty most important for the institution given its mission. A given policy or strategy can then be analyzed in terms of its robustness with respect to each scenario in the set. From this, design enhancements specific to each scenario can be identified, and those elements that prove most relevant across the scenario set are selected for integration in the policy or strategy design. In addition to their formal analytic value, developing scenarios through workshops provides a uniquely valuable means of including key stakeholders and relevant subject matter experts in the design process.

By applying these foresight techniques consistently, they become part of the strategic culture of the organization – driving it towards a continuous future orientation. It is worth noting that given the broad applicability of foresight processes and the importance of preserving their analytic independence, it is often best to maintain an independent strategic foresight or futures function in the organization.

- **Simulating and Harnessing Interactive Dynamics:** In the intensely competitive emerging environment of proliferating and increasing powerful strategic actors, effective policy and strategy design increasingly requires rigorous interactive analysis, in which the likely responses of key stakeholders, adversaries, allies and other players to a given policy or strategy are modeled and simulated systematically. The process begins by identifying the full range of relevant actors for a given policy and then prioritizing them in terms of their influence. While the process includes red-teaming, the analysis is not limited to adversaries. It involves systematic consideration of the capabilities, intentions, and likely reactions of adversaries, allies, and those directly affected by the policy or strategy. Core disciplines of interactive analysis include game theory and behavioral economic analysis, which are particularly important for understanding the likely

patterns of citizen responses to high-touch domestic policies such as health care and education policy.

For policy and strategy design, the purpose of interactive analysis is to build anticipatory resilience. By simulating the reactions to a given policy or strategy by key adversaries, allies and others, policy-makers can refine their approach in ways that take advantage of the predispositions of those actors rather than falling prey to them. The process reveals blind-spots, vulnerabilities and – just as important – strategic opportunities in order to improve the ability of a given policy or strategy to achieve its objectives.

Building this type of analysis into the policy and strategy development process does not necessarily require creating a separate function. By creating repeatable processes and then including relevant subject matter experts to participate in the simulations, the objectivity and independence that are so critical to the value of this work can be retained by an internal function.

- **Driving Full-Spectrum Policy Innovation:**

Institutionalizing the ability to drive innovation is arguably the central strategic and organizational challenge of our time. Innovation is the central driver of productivity and competitiveness for both private and public sector organizations. In government generally and in policy and strategy development in particular, create the capacity to drive innovation intelligently and consistently does not require standing up large bureaucratic structures. It does, however, require the ability to systematically scan for relevant established innovations, participate in key networks and independently drive collaborative processes to harness the engines of innovation with greatest potential relevance for a given policy domain.

Scanning for relevant established policy innovations is nearly as straightforward as it sounds. It involves monitoring key journals in a policy domain and then conducting deep-dives on potentially relevant emerging best practices to determine their applicability, track record and implementation requirements. While technology is one important source of innovative solutions in the current environment, it is important to remember that there are many others of equal or greater promise for policy-makers. For example, a primary science-driven category of cross-cutting policy innovations is the application of “choice architecture” to

improve policy outcomes by understanding the cognitive processes by which citizens make decisions. These “Nudge” techniques, named after the book by Cass Sunstein and Richard Thaler, translate the findings of behavioral economics into policy design components. Richard Thaler defines choice architecture as “...the careful design of the environments in which people make choices. If anything you do influences the way people choose, then you are a choice architect... For example, you can’t design a neutral building. There is no such thing. A building must have doors, elevators, restrooms. All of these details influence choices people make... People respond to feedback; for instance, someone designed light bulbs that glow darker shades of red as homes use higher levels of energy, he said. Such devices helped reduce energy use in peak periods by 40 percent in Southern California.”

Another essential means of driving policy innovation is to participate in the increasingly thriving global policy innovation networks, which have as their key nodes the growing number of graduate schools of advanced public policy studies, a range of global policy think-tanks and a number of emerging government-led centers of innovation, such as the China Executive Leadership Academy (or “CELAP”) in Shanghai. By actively engaging their policy-makers in these networks, government institutions can maximize their ability to see emerging best practices early in their evolution.

Scanning and validating the applicability of the innovations of others is not enough. Government organizations must also be able to harness engines of innovation beyond traditional policy domains for a given policy issue. The term “engines” here refers to particularly active sectors of innovation including science- and technology-centered clusters, networks of social-entrepreneurs driving new practices and much else. Policy development teams must be able to orchestrate collaborative design sessions in which experts in these emerging areas of innovation are brought together with the government’s policy professionals and key stakeholders to co-create solutions that leverage non-traditional capabilities in creative, even disruptive, ways. For example, one of the most promising examples of an engine of innovation with wide applicability is the accelerating advance of connective and routing technologies which in the private sector have led to the emergence of Uber, Airbnb and many other disruptive leaders in previously stable markets. These technologies are only beginning to be harnessed by policy-makers, but

hold tremendous promise for example as a means of maximizing the efficiency of transportation systems or allocation of office space. For all of these reasons, national governments will be increasingly well-served by cultivating ongoing strategic partnerships with leading private and academic organizations as a means of staying current with respect to the frontiers of innovation and of relaying emerging policy requirements to the organizations who may ultimately be best positioned to help meet them.

- **Comprehensive Stakeholder Engagement:**

Stakeholder engagement is also an important way of improving policy decision making because stakeholders offer a potentially invaluable repository of knowledge not available via open source channels. Stakeholders can support or oppose decisions, and may be influential in the organization or within the community in which they operate. They can also take actions to support high-priority policy issues. The biggest disconnect between stakeholder groups seems to be between those who design policy and those who execute it, as policies are often designed with little or no input from the people expected to implement them.

Policy and strategy designers should engage key actors through a broad consultation in meaningful policy dialogue, and build consensus on the current situation and on the values, goals and overall policy directions. A stakeholder can be a person, group, or an organization that is involved in or affected by the policy course of action. This can include a diverse range of actors, from ministries and local governments, non-governmental organizations and the not-for-profit sector, to community groups and civil society, businesses and the private sector, other political parties and lobbyists and pressure groups. According to an A.T. Kearney study, almost 23 percent of private-sector participants said they were involved in one way or another in national policy making, either before or during policy formulation, while 85 percent have a strong interest in being involved and believed they could add the most value in the early stages .

Tapping into this repository and integrated collective intelligence not only requires an understanding of the full stakeholder ecosystem, it also requires identifying and meaningfully constructing targeted outreach mechanisms. The spectrum of stakeholder participation may range from simple information through fact sheets and websites to consultations

and involvement through public comment, statistical surveys to collaboration through participatory decision making and delegated decisions. Policy dialogue processes bring together the national actors, gather and share information, conduct discussions and build consensus.

Finland has a progressive model for stakeholder engagement, which is required for all primary and subordinate regulation. The use of interactive websites such as www.otakantaa.fi which means speak your mind and social media are well established, as well as public meetings and formal consultation with social partners, business, consumers, human rights organizations and other authorities. Comments from consultations are made available on-line and regulators are formally obliged to consider them when developing the final regulation. (OECD Regulatory Policy Outlook 2015 – Finland).

In putting this into practice today, it is important to understand the broad divergence with respect to the stakeholders involved. The methods of stakeholder engagement and the outcomes reported will depend on understanding the stakeholder differences and perspectives. By identifying early synergies with stakeholders and building mutual understanding, credibility, and trust, policies are more likely to be implemented in an integrated manner as intended by the policy-makers.

- **Expert Crowd-Sourcing:** The growing technical complexity and intrinsic multi-disciplinarity of policy and strategy design is creating unprecedented knowledge requirements for government institutions. No single organization can maintain the amount of expertise required across all of the domains relevant to its work. The first implication of this is that policy-making institutions require robust capabilities for identifying and retaining subject matter experts to include in the design process. There are, however, significant analytic risks to relying excessively on any single or even a small set of subject matter experts. They have demonstrated tendency to over-weight the analytic variable with which they are most familiar and often lack the intellectual peripheral vision necessary to understand the complex relationships between the diverse range of factors that so often characterizes policy challenges today. Individual experts are thus necessary for effective policy design, but increasingly insufficient.

To harness the power of expertise while minimizing the biases and blindspots of any single perspective, government entities can now apply expert crowdsourcing techniques cost effectively. Expert crowdsourcing involves the analysis of any aspects of a given policy or strategy using “distributed participatory techniques” to rapidly capture structured input from a carefully selected network of subject matter experts from across the organization, the wider set of government ministries, academic institutions, think-tanks and other relevant institutions.

The ability to derive value from crowdsourcing policy or strategy design is a function of careful planning. First, the surveys that structure the analysis require academic precision to ensure the fidelity of the findings. Perhaps more important, given the unique value proposition of this form of analysis, is the design of the survey population. They must include not only validated academics in the focal policy domain, but also diversity in terms of expertise/academic discipline, professional experience, nationality/culture, political orientation (particularly when using think-tanks), current functional role, age/generational perspective, gender, ethnicity and/or other parameters as appropriate.

Once fully implemented, expert crowdsourcing can become a powerful means of minimize strategic blind-spots and perspectival biases, revealing specific vulnerabilities/weaknesses and opportunities that may be embedded in the detailed structure of a given issue and surfacing key areas of substantive disagreement in order to deepen policy-makers’ understanding of the policy challenge.

- **Whole-of-Government Alignment Analysis:**

In the context of proliferating institutional interdependencies, as outlined in Section I, effective policy and strategy design must feature systematic analysis of alignment with other governmental entities. The purpose of this goes far beyond mere coordination, a term that in government too often means only the shallowest confirmation of mutual awareness. Its fundamental intent responds to the diffusion of power that increasingly characterizes the global operating environment and penalizes dilution of effort and resources severely. Whole-of-government alignment analysis thus seeks to maximize the concentration of force behind any given effort. Its starting point is the systematic analysis of the relationships between a given policy or strategy and

the policies, strategies and capabilities of other internal and external departments and organizations of the government. This includes the identification of all relevant linked units, ministries and other potential partners and the detailed analysis of the potential linkages to them. It serves to assure internal alignment within the policy-making organization to flag potential conflicts, overlaps or redundancies and highlight opportunities for increasing leverage via internal collaboration and/or integration.

The primary purpose of this component of the design process, however, is to ensure and maximize the alignment of the policy or strategy with national policy and strategic priorities, the policies and capabilities of other government ministries and the relevant resources of the key private and civil sectors in order to maximize unity of effort across the government, minimize unproductive conflict and redundancy, and identify opportunities for collaboration with national partners. It is distinct from interactive analysis in that it assumes fundamental alignment of intent and much more intensively seeks opportunities to fuse knowledge, capabilities and resources to maximize policy impact while minimizing waste.

- **Agile Resource Management:** With competing demands on national resources and budgets, a core focus of policy design should be to seek lean and efficient policy solutions, with compelling and analytically grounded “business cases”, especially where there is a need for additional investment. The government sector is traditionally associated with bureaucratic processes and heavy expenditures. However, government policy planning can embrace some of principles of flexibility and agility that work well in business and which can ease the resource burden on the government. Governments that are faster, more flexible, and more responsive (in short, more agile) will achieve better outcomes for their citizens while also better managing their limited resources. Agility means taking pragmatic actions in a perpetually changing environment—engaging citizens, understanding their needs and engaging the private sector to design, deliver and possibly share the burden of citizen-centric policies and services.

The private sector is an alternative additional source of resources to meet the funding gap. The private sector can also play a key role in introducing technologies and innovations, as the private sector currently makes %85 of R&D investments in technology. In addition, the private sector can

improve operational efficiency of public sector resources or pass on local private sector resource capabilities through joint ventures. The agile government will look to supplement its limited resources with the private sector as part of its policy design principle. It will extract long-term value-for-money through appropriate risk transfer to the private sector, especially for policies requiring large investments or advanced technologies. Of course public-private partnership (PPP) projects should be judged on their individual merits and only selected when considered the most appropriate and viable solution after a balanced assessment and evaluation of environmental, social and economic considerations inherent in society.

With some governments facing consistent budgetary pressures and increasing demands for public infrastructure that exceeded public funds, adopting a more agile mindset in the policy and strategy design process in which the private sector is engaged directly and shares the resource and the risk-burden can greatly improve policy sustainability and government performance.

- **Next Generation Governance and Accountability:**

Over the past few decades, more transparent accountability and better governance from the government has become a core part of citizen expectations. The complexity and interconnection of the global economy means national decisions may well have implications for allies, partners and other international stakeholders, so the expectation of responsible governance of actions and accountability may well even extend beyond domestic borders.

What has remained constant, though, is the underlying principles of checks and balances which will subsequently oversee the governance and accountability of national policies once implemented need to be embedded at the policy design stage. Governance and accountability have both a corrective function – addressing policy grievances and adjusting different policy aspects – and a preventive function – preventing public sector dysfunctionality in terms of corruption, inefficiency, and waste.

There is thus a need for a comprehensive approach to accountability which draws linkages among stakeholders and evolving systems. This approach

looks at understanding how the wider political context, power relationships and incentive structures or “the informal rules of the game” affect governance and accountability and then incorporates them in the policy design. From this wider perspective, the policy-maker looks beyond the traditional yet essential lines of accountability regarding service delivery, budgets management, decision authorities and performance objectives to a deeper set of arrangements. This approach entails the concept of shared responsibility between the government and the wider stakeholder community, which may include international institutions, the private sector and civil society and gives a voice to the public which represents the broad interests in society. The policy design considers joint accountability between policy-makers and executors and other stakeholders. In the development sector, this is referred to as ‘mutual accountability’ where both recipients and providers of development support agree to be held accountable for their respective commitments, thus including a wider set of development cooperation actors that including the civil society.

Other than the mechanics of setting up a good governance model, effective governance is just as much a people challenge. People have to believe in the model to make it work—and to make it last. With the right governance and accountability principles in place, the policy-maker ensures that the policy will be supported by principles to sustain in the long run. In a WikiLeaks world, not doing this properly may have costly implications for governments.

- **Integrated Outcome Monitoring and Measurement:**

Integrated policy outcome monitoring and measurement is a central pillar of effective policy design. It is prerequisite for both policy prototypes and fully scaled policies as it provides the evidential basis for iterative improvement. Adaptive design changes can only be based on continuous monitoring of policy impact, which allow policy-makers to trace the effects of policy at any given time and fine-tune it based on the inputs obtained in the monitoring process. For this to work, however, monitoring and measurement systems and the mechanisms of continuous refinement must be built into the policy design and agreed upon by key stakeholders at the outset.

At the most basic level, doing this involves breaking

the strategic intent of the policy into measurable quantitative and qualitative factors and Key Performance Indicators (KPIs) that can be tracked with sufficient frequency so as to be meaningful. In many cases, making this monitoring visible to key stakeholders can be a powerful means of building trust and allegiance to the policy. Data is often collected through interviews, observations, and

documents. Current and emerging technologies are enabling the efficient automation of data collection and analysis through widely distributed systems of applications, infrastructure and software. Approaches that leverage IoT in this effort can greatly expand the capture of relevant data and drive improved insights through analytics based systems.

CONCLUSION

Effective policy and strategy development increasingly demands an enhanced ability to observe, interpret, prioritize and act on the massive global flow of interconnected events and information. It requires an entirely new level of what can be called “strategic processing power.” In this paper, we have outlined the forces of change that are disrupting the policy and strategy process, the implications of those changes for the design of policy and strategy and the capabilities required to develop policies and strategies that meet those requirements. The capabilities outlined above and the design process they enable are intended to allow government organizations to systematically and reliably build that processing power. In the context of increasingly constrained resources and the proliferation of competing and at times conflicting

policy imperatives and choices, improving strategic processing power represents an urgent priority for government institutions. This is true for large, established governments facing bureaucratic stasis and institutional decay and relatively small countries, notably those still forming the foundations of their institutions. These governments have a unique opportunity to build capabilities and processes on a relatively clean slate. To do so, they must develop the means of creating asymmetric advantages in policy and strategic disciplines that effectively multiply power and influence. Ultimately, by doing so, they will be increasing the adaptive capacity of their societies and advancing the vital interests of their citizens for the long-term.

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