

Policy Making and Administration in State Agencies: Strategic Management Approaches

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The concept of strategy has been employed by business policy and management researchers for more than two decades.¹ Common usage of the term captures a variety of images, including "adaptation," "learning," "evolution," and "coalignment."² In this extensive literature, strategic management is seen to encompass strategic planning, direction setting for the organization as a whole, and the formulation, implementation, and evaluation of specific organizational strategies.³ Organizational strategies reflect the actual pattern of choices and actions made in guiding the organization through time.

Although the strategy literature has largely focused on business organizations, public agencies also engage in strategic management, as reflected in a variety of policy-making and administrative activities. Agencies regularly engage in cycles of planning and goal setting, adopt and implement new policies, develop new programs or change the relative emphasis within a portfolio of programs, reorganize their internal structure, alter their service delivery systems, and seek new sources of funding and external support. Building on evidence of important differences as well as similarities between public and private organizations,⁴ scholars have begun to develop a literature specifically concerned with the distinctive nature and characteristics of strategy and strategic management in public organizations.⁵ This paper extends that emerging literature by reporting the results of field studies of strategic management in four Ohio agencies and providing a preliminary classification of public organization strategies.

The Strategic Management Approach

A strategic management approach to the study of public organizations focuses on the nature of human choice and action taking in the public sector. From a strategic perspective, the critical function in any public organization and the primary responsibility of its general managers is the coalignment of streams of institutionalized action designed to achieve a basic balance among purpose, present conditions, desired future outcomes, and inner and outer environments.⁶ While explicitly accounting for the political, economic,

■ *Although the strategy literature has largely focused on business firms, public agencies also engage in strategic management, as reflected in a variety of policy-making and administrative activities. This paper extends the emerging literature on strategic management in public organizations by reporting the results of field studies in four Ohio agencies and providing a preliminary classification of public organization strategies. Also, characteristics of four distinct strategies (developmental, transformational, protective, and political) are identified and described.*

and legal factors that shape public policy, the strategic management approach recognizes that organizational purpose, striving, and capacity also serve as determinants of the strategic direction of public organizations.

Because most theories of strategic management have been concerned with private-sector organizations, market-driven competition has been treated as the main source of strategic conceptualization.⁷ Since public organizations operate in a governmental authority system rather than in a market system, strategic choices and actions in the public sector emanate from sources other than market competition. Rather than maneuvering in markets, public organizations act within relatively complex, multilateral power, influence, bargaining, voting, and exchange relationships.

The strategic management task for the general purpose government agency (GPGA) involves not only the development of strategies for implementing policy and for the internal and external management of the agency, but also for the establishment of organizational purpose and character. The available strategies and forms of action are restricted at the GPGA level by various factors including constitutional arrangements, legislative and judicial mandates, governmentwide rules and regulations, jurisdictional boundaries, resource constraints, political climate factors, and client and constituent interests.⁸ In this context, strategic choice and action taking by individual agencies is highly dependent on exter-

nal influences and environmental forces. Since the primary goal of strategic management in public organizations is to provide direction for the organization through the coalignment of internal and external strategic variables, strategic management at the agency level involves the joining together of external demands, constraints, and mandates with agency-specific goals, objectives, and operational procedures.

The Ohio Strategic Management Studies

The Study

Related literatures in public policy making and administration, organization theory, and strategic management suggest that the nature of strategy in public organizations and characteristic patterns of strategic management vary among agencies within and across political jurisdictions, depending on various organizational and environmental conditions.⁹ To explore these relationships, this research focused on two central questions regarding the strategic management of public organizations:

1. What are the patterns of strategy and strategic management in public organizations?
2. What are the factors associated with the pattern of strategy and strategic management in a specific agency?

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The first of these questions addresses the nature of specific strategies and the variations found among strategies. The second research question is concerned with the factors that influence or condition the pattern of strategic choice and action taking for any specific public organization. The identification of these factors and of the relationships among factors and specific patterns of strategy have potentially important implications for understanding the environment and tools of policy making and administration in public organizations.

Research Design

Since January 1983, intensive field studies have been conducted in four agencies of state government in Ohio: the Department of Natural Resources, the Department of Mental Retardation and Developmental Disabilities, the Department of Public Welfare, and the Public Utilities Commission of Ohio. These studies focused on agency-level strategic management during the second administration of Governor James A. Rhodes (1974-1982).

In many ways, Ohio is a prototypical American state. It has large numbers of both urban and rural residents, sizeable ethnic and minority populations, and a diverse,

albeit troubled economy. During the period 1974-1982, state government experienced first expansion and then cutback, relative fiscal well-being and extended budget crises, and simultaneous demands for new programs and services and for greater efficiency and reduced expenditures. The agencies selected for inclusion in this research are representative of a variety of policy and service types and account for a significant portion of state government activity and budgetary expenditure in Ohio. Moreover, in terms of both program and management responsibilities, they are generally representative of the population of Ohio and other state government agencies.

Multiple sources of data and methods of qualitative analysis were employed in the field studies. Unstructured, intensive interviews were conducted with directors, deputy directors, division chiefs, and other agency informants actually involved in the formulation and implementation of strategy. Key stakeholders of the agency from government and various constituency and clientele groups were also interviewed. These interviews took place in several waves over a period of 18 months. Also, annual reports, budgets, and other documents from the agencies, the State of Ohio Archives, and other sources were collected, and the contents were systematically analyzed.

From these various sets of data, extensive accounts of agency strategy and strategic management were prepared and analyzed.¹⁰ These accounts proved highly suggestive of the varied patterns of strategy found in the four Ohio agencies. In addition to identifying specific strategic patterns, the analysis disclosed a number of factors which seemed to influence strategic choice and action taking in the agencies.

Analytical Framework

Eight dimensions were employed in the analysis of the original accounts of strategic management in the Ohio agencies. While the dimensions are not completely independent, each captures a distinctive feature or element of the strategies of public agencies. The process of analyzing the original accounts and rating the agencies on each of the dimensions involved the authors as well as several colleagues and graduate students. Initial decisions about ratings were tested with informants in later stages of the research.¹¹

Strength of external influence describes the extent to which external actors attempt to influence the strategy of an agency. This dimension measures the level of effort made by various stakeholders in the influence process.

Locus of strategic control reflects the outcome of influence processes, locating the control over strategic direction either with organizational actors (internal) or extraorganizational stakeholders (external). Where the level of external influence effort is moderate to high, this dimension captures the ability or inability of the agency to resist external direction.

Impetus for strategic action indicates whether the agency's strategy is crafted in anticipation of events (proactive) or in reaction to them (reactive).

Strategic orientation refers to the objectives of an agency's strategy: political, organizational, or policy. Organizations with a political orientation pursue strategic outcomes designed to serve the political interests of organizational actors, jurisdictional policy makers or controllers, or external stakeholders. An organizational orientation aims to add resources, improve performance, and/or develop capacity. Policy oriented strategies derive from membership in a specific policy community and support for its policy orientation.

Orientation toward change reflects the agency's intention toward itself and its environment. For example, agency strategies may be designed to produce fundamental change in program, structure, or relationships with stakeholders, or they may be designed to maintain the status quo.

Scope of strategic management refers to the range of concerns addressed by the agency's strategic management activity. The scope or domain of strategic choice and action may be broad or narrow, depending on organizational capacity, the preferences of key stakeholders, and various environmental circumstances.

Level of strategic management activity describes the effort expended by an agency to achieve its strategic objectives. A high level of strategic management activity is associated with significant effort and attention to specific strategic issues. An organization with low strategic management activity does not devote much energy to strategic management or to a strategic agenda and may appear to be passively drifting.

Direction of strategic movement refers to the target(s) of the agency's strategic management actions. Strategic actions can be directed internally toward achieving control, increasing efficiency, or building capacity; they may be focused externally as a means of responding to or transforming the environment; or, strategic actions may have both internal and external targets.

Patterns of Strategy

Table 1 presents each of the agency strategies in terms of the eight dimensions defined immediately above. The

patterns identified by this analysis are characteristic of the strategies of public organizations, but they do not necessarily exhaust all possible strategies. As noted in the concluding section, further research is required to complete the development of a strategic taxonomy for public organizations. The remainder of this section describes each of the strategies, with appropriate illustrations drawn from the agency studies. In the next section, factors associated with specific patterns of strategy are identified and discussed.

Analysis of strategic management in the Ohio agencies revealed four distinctive public sector strategies: developmental, transformational, protective, and political.

The Developmental Strategy— Department of Natural Resources

Operating in the developmental mode, organizational strategists purposefully craft strategies to enhance organizational status, capacity, resources, and impact and to produce a new and different organizational future. The strategy is based on an awareness of and even attention to external actors and forces, but the impetus for strategic action is internal, as is the locus of strategic management control. Strategic choice and action taking range over a broad agenda, reflecting the various issues and concerns affecting the organization.

The developmental strategy characterized the Department of Natural Resources (DNR). During the Rhodes administration, DNR developed new and expanded programs, constructed new facilities, purchased land for state nature preserves, initiated a "People to the Parks" program, established a Youth Conservation Corps, and introduced a statewide litter control program.

Under the leadership of Director Robert Teater, DNR sought to integrate its diverse and often-competing constituencies around core departmental objectives to secure independent sources of funding and to create an organizational climate and culture emphasizing individual and organizational performance. DNR's leadership shared a common vision of the department, of its future, and of the strategies for achieving departmental goals. Communication of this vision was instrumental in securing broad support for the DNR program within the department, in other parts of state

TABLE 1
Ratings of the Ohio Agencies on Strategic Dimensions

	DNR	DMRDD	DPW	PUCO
Strength of External Influence	Weak	Strong	Strong	Moderate
Locus of Strategic Control	Internal	External	External	Internal
Impetus for Strategic Action	Proactive	Reactive	Reactive	Reactive
Strategic Orientation	Organizational	Policy	Political	Political
Orientation Toward Change	Incremental	Fundamental	Status Quo	Incremental
Scope of Strategic Management	Broad	Moderate	Narrow	Narrow
Strategic Management Activity Level	High	Moderate	Low	Low
Direction of Strategic Movement	Mixed	Internal	Mixed	Mixed

government, and among constituency groups. At the same time, programs were developed to enhance the skills and competencies of DNR employees and to increase their commitment to the organization. Both internally and externally, DNR attempted to expand and build on its strengths so that it could realize opportunities for organizational and program development.

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DNR's strategy was derived from a number of factors related to organizational capacity and environment. Because of the diversity of their demands and DNR's independent funding sources, external actors had relatively little control over DNR's strategic direction. On the other hand, the department was able to develop the necessary resources (financial, reputational, professional) to largely determine and control its strategic agenda. This agenda was broad in scope, encompassing virtually all aspects of capacity building. At the same time, objectives of DNR strategy were based on long-term incremental development rather than on fundamental change in program lines and service delivery. The department's strategic management team was capable, energetic, and highly cohesive.

The Transformational Strategy—Department of Mental Retardation and Developmental Disabilities

Transformational strategies are principally conditioned by a commitment to fundamental change, either internal or external. Typically, external actors and forces wield considerable influence over the organization. Strategic direction emerges from responses to this influence process and may be more congruent with external demands and pressures than with organizational aspirations. Because of the high level of external control, organizations with a transformational strategy usually have a policy or political orientation. Ratings of an agency on the other dimensions are not especially significant in the characterization of this strategy.

The transformational strategy was found in the Department of Mental Retardation and Developmental Disabilities (DMRDD). Developments in the decade preceding the creation of DMRDD had a major impact on its strategic direction. Among the most significant of these were fundamental changes in professional opinion regarding appropriate and effective care and treatment for the mentally retarded, the development of new behavioral science technologies for training retarded individuals for normalized living environments, and a national legal rights movement which established basic principles of more humane treatment for the retarded.

These developments provided the impetus for a major change in the concept of service delivery to Ohio's

MR/DD population. This new approach emphasized movement from a residential, service-delivery system to community-based care and treatment. Pressures from organized constituent groups, MR professionals, and legal rights advocates were a major source of pressure for rapid deinstitutionalization. By 1980, there was general commitment within Ohio to reduce state-operated programs, close residential centers, and develop and emphasize DMRDD's new regulatory role. The evolution of strategy in the Rhodes administration can be traced through DMRDD documents portraying the changing state role in direct service delivery. Over time, DMRDD came to describe itself not as a primary service provider, but rather as a monitor and regulator of the service delivery system. Program statistics show decreasing numbers of residential clients and increasing enrollment in community programs. Similarly, DMRDD budgets reflected increasing expenditures for community programs and facilities.

Strategic management in DMRDD was largely conditioned by external factors, including legal mandates, advocacy group pressures, professional norms and standards, and state budgetary conditions. New service delivery technologies made it possible for many retarded individuals to adapt to normalized living environments.

The Protective Strategy— Department of Public Welfare

A hostile and potentially threatening environment, combined with limited organizational capacity, produces the protective strategy. This strategy seeks to accommodate strong external influence, while maintaining the organizational status quo. Although the protective strategy is motivated by an organizational or policy orientation, it is often played out in political terms. Strategic decisions and actions are formed in reaction to, and controlled by, external actors, causing internal observers to question the capacity and commitment of senior management. Relatedly, the organization may be seen as lacking vision, purpose, and energy. The image conveyed by this strategy is consistent with certain academic and popular notions of public organization behavior and performance.

The protective strategy typified the Department of Public Welfare (DPW). During the Rhodes administration, the major factors influencing DPW strategy were external in nature. Hostile relationships with legislators and other key stakeholders, nearly continuous media attention, tremendous increases in human service needs, decreased resource availability, and changing federal policy and program mandates were among the most important variables affecting departmental strategy. These conditions led to an environment that was perceived as threatening to the department, its programs, and clients. In response to this situation, senior management attempted to “. . . bring peace to the place and get it out of the newspapers.”¹²

Faced with political and fiscal threats from varied sources, the strategic agenda of the department was

dominated by efforts to protect its core programs and to prevent substantial benefit reductions. The strategy devised to achieve these objectives required that DPW reestablish good relationships with the Ohio General Assembly and other constituents, lower its public profile, and impose tight controls over internal operations. Execution of this strategy was enhanced by an internal environment in which political considerations and relationships took precedence in policy and operational decision making.

The Political Strategy— The Public Utilities Commission

Political strategies may take more than one form. One type emerges from changing environmental conditions and is designed simply to accommodate a new balance of power among external influencers and to limit pressures for organizational change. Organizational strategists have more internal control in crafting this strategy than do strategists operating in the protective mode. Another form of the political strategy conceives of the organization as an instrument of partisan politics and as a means of rewarding political supporters. Often, execution of this strategy entails substantial changes in organizational arrangements, including staffing and structure, and in policy and program emphases.

The political strategy characterized the Public Utilities Commission of Ohio (PUCO). Historically, regulation by PUCO was a routine activity involving primarily technical questions related to the rate base and the calculation of a company's rate of return. Because of technological improvements, economies of scale, and the availability of low-cost and plentiful energy supplies, the regulated utility companies were able to maintain or even reduce the unit costs of their services. In this generally benign environment, it was possible for the PUCO to produce regulatory outcomes that were satisfactory to both producers and consumers.

Since 1973, a succession of events, including the Arab oil embargo, problems in the nuclear power industry, high rates of inflation, and changing federal energy and telecommunications policy, combined to produce a fundamentally different climate of regulation in Ohio. Changes in the Ohio statutes governing PUCO activities, creation of the Office of Consumers' Counsel, and increasing politicization of utility-related issues contributed to this general destabilization. As a consequence, PUCO came under intense pressure to modify its traditional regulatory approach, which was widely perceived as favoring utility interests. Following from its mandate to ensure service at the lowest possible rates while allowing the utility companies a fair rate of return, the Commission employed a regulatory strategy aimed at balancing the competing interests of producers and consumers. As negative reactions to this approach increased, PUCO decisions retained a rhetorical commitment to the concept of balancing competing interests but produced results more favorable to consumers.

Strategic management in the PUCO has been a product of many factors, including the legal charter under which the Commission operates, changing preferences and shifts in the balance of power among stakeholders, increasing politicization of regulatory issues, economic conditions which made neutral balancing less feasible, and the absence of strong leadership from the appointed members of the commission. Despite legal requirements and circumstances which seemingly constrained its strategic approach, the PUCO showed a remarkable capacity to reinterpret its environment and to develop a strategy more consistent with existing political conditions. While proclaiming faithfulness to its mandate, the commission demonstrated that balance, like beauty, is in the eye of the beholder.

Factors Influencing the Strategies

As suggested in each of the preceding examples, a set of factors or variables were associated with each of the agency strategies. Among the external variables affecting the patterns of strategy were: 1) resource constraints; 2) stakeholder preferences; 3) jurisdiction-level political agendas; 4) level of public support for the agency and its programs; 5) government budgetary conditions; 6) balance of constituent power; and, 7) legal mandates. Internal factors included: 1) organizational leadership; 2) organizational capacity; 3) internal policy consensus; 4) amount of discretion allowed by political controllers; 5) availability of alternative funding sources; 6) policy type; and, 7) changes in service delivery technology. Table 2 arrays the variables across agencies and indicates the influence of factors on specific agencies. Interestingly, no single factor affected the strategy of all of the agencies. However, organizational leadership and capacity were significant in three out of four agencies, while resource constraints, fiscal conditions, political agenda, legal mandates, balance of power, internal consensus, and policy type each influenced the strategy of two agencies.

Analysis of strategic management in the Ohio agencies revealed four distinctive public sector strategies: developmental, transformational, protective, and political.

It should be apparent that certain factors are closely connected to specific strategic patterns. In the case of the developmental strategy, both internal and external factors serve as resources from which the agency constructs its strategy. Transformational strategies are driven by external factors, especially those promoting substantial change in the organizational status quo and which dominate in the absence of countervailing internal capacities that might allow the organization to maintain its direction. This pattern is even more pronounced in the protective and political strategies. For the protective strategy, however, it is the threatening character of external factors which shapes the agency's strategic

TABLE 2
Strategic Factors in the Ohio Agencies

	DNR	DMRDD	DPW	PUCO
<i>External</i>				
Resource Constraints	-		+	
Stakeholder Preferences		+		
Political Agenda			+	+
Public Support	+		-	
Fiscal Conditions		+	+	
Balance of Power	+			+
Legal Mandates		+	+	
<i>Internal</i>				
Leadership	+		-	-
Competence and Capacity	+		-	-
Consensus	+	+		
Discretion	+			
Alternative Funding	+			
Policy Type			+	+
Service Delivery Technology		+		

+ = presence of factor influenced pattern of strategy.

- = absence of factor influenced pattern of strategy.

response. While this may also be true for one variant of the political strategy, in others external actors are valued and rewarded.

Implications for Public Administration

This research contributes to public administration theory in three ways. First, the empirical studies of the Ohio agencies produce a significant body of knowledge regarding the strategic management of public organizations. Prior to this study, little evidence had been compiled about the character of strategic choice and action taking in a diverse set of public organizations. Relatedly, this research has identified specific patterns of strategy in public organizations, described a set of strategies, and suggested how these strategies were conditioned by internal and external factors. Finally, identification of a set of specific dimensions allows both researchers and practicing managers to analyze strategy in any public organization.

In-depth interviews with more than 50 informants provided ample evidence of the practical importance of the strategic management function in public organizations. While the research suggests that external factors play a major role in determining the strategy of public organizations, close examination of the agency studies and the strategic factors in each case demonstrates the significance of managerial choice and action taking in directing the course of public organizations. Strategies crafted by the public managers in the Ohio agencies represent solutions to fundamental organizational problems. The strategic management approach developed in this paper begins to suggest the full complement of conditions and considerations affecting strategic management and provides a framework for analyzing and

building strategies in public organizations. In both analytical and action taking modes, public managers can usefully employ this framework to assess their strategic situation and develop appropriate strategic programs.

From the perspective of action research methodology, this study confirms experiences of other researchers. Managers in the Ohio agencies not only understood the nature of the inquiry, but generally saw the research process as an opportunity for learning. Intensive interviewing led to the establishment of general rapport between researchers and informants. This produced a spirit of openness that allowed both researchers and research subjects to gain a deeper appreciation of the strategic management task in the Ohio agencies. Importantly, the Ohio research experience confirmed that multiple methods of qualitative data collection applied to multiple classes of informants are necessary to achieve a firm basis for discovery and confirmation.

Qualitative methods were employed in this research because they were clearly most appropriate given the objectives of the study and the state of knowledge about strategic management in public organizations. This "strategy" for strategic management research had several virtues. Constant interplay between observation and conceptualization allowed for more complete involvement in and understanding of the agencies and their environments. Also, through several waves of field study, it was possible to provide significant opportunities for surfacing disconfirming evidence and to achieve some measure of theoretical grounding.

Despite the precautions taken in the design of the studies, readers should retain some skepticism about the reliability and validity of the findings. Although the research subjects seemed generally truthful in their

responses, the issue of informant reliability can never be fully resolved. Similarly, the retrospective nature of this inquiry has the potential for errors in various causal attributions. While the utilization of multiple sources and kinds of data and the use of explicit strategies for producing disconfirmation of initial conclusions minimize these problems, they will always be present to some degree.

Recognizing the importance of these issues points up the need for additional research. The rich data generated by these studies can best be seen as a foundation for ongoing scholarly research and debate. Additional research is especially necessary to determine the full

range of strategies available to public organizations. Second generation studies of strategic management in public organizations would also begin to extend the methodology and test the generalizability of the Ohio findings.

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Notes

1. Among the many citations which might be provided are Russell L. Ackoff, *A Concept of Corporate Planning* (New York: John Wiley and Sons, 1970); H. Igor Ansoff, *Corporate Strategy* (New York: McGraw-Hill, 1965) and *Implanting Strategic Management* (Englewood Cliffs: Prentice-Hall International, 1984); Alfred D. Chandler, Jr., *Strategy and Structure* (Cambridge: M.I.T. Press, 1962); Charles W. Hofer and Dan E. Schendel, *Strategy Formulation: Analytical Concepts* (St. Paul: West Publishing Company, 1978); Raymond E. Miles and Charles C. Snow, *Organizational Strategy: Structure and Process* (New York: McGraw-Hill, 1980); Danny Miller and Peter Friesen, "Archetypes of Strategy Formulation," *Management Science*, vol. 24 (May 1978), pp. 921-933; Henry Mintzberg, "Patterns of Strategy Formulation," *Management Science*, vol. 24 (May 1978), pp. 934-948; Dan Schendel and Charles W. Hofer (eds.), *Strategic Management* (Boston: Little, Brown and Company, 1979); and Arthur A. Thompson, Jr. and A.J. Strickland, *Strategy Formulation and Implementation* (Plano, TX: Business Publications, Inc., 1980).
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6. James D. Thompson, *ibid.*
7. Michael Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: The Free Press, 1980).
8. That these factors might constrain the strategies of general purpose government agencies is consistent with much of the literature related to public bureaucracy and management. See, for example, Laurence E. Lynn, Jr., *Managing the Public's Business* (New York: Basic Books, Inc., 1981); Francis E. Rourke, *Bureaucracy, Politics, and Public Policy*, 3d ed. (Boston: Little, Brown and Company, 1984); and Donald P. Warwick, *A Theory of Public Bureaucracy* (Cambridge: Harvard University, 1978).
9. Hal G. Rainey, Robert W. Backoff, and Charles H. Levine, *ibid.*; Peter S. Ring and James L. Perry, *ibid.*; Randall Ripley and Grace A. Franklin, *Bureaucracy and Policy Implementation* (Homewood, IL: The Dorsey Press, 1982); and Martha W. Weinberg, *Managing the State* (Cambridge: Harvard University Press, 1977).
10. Complete version of the accounts can be found in Barton Wechsler, *Strategic Management of Public Organizations: Studies of Public Policy Making and Administration in Ohio* (Columbus: Unpublished Doctoral Dissertation, The Ohio State University, 1985).
11. A more complete description of the methodology employed in these studies is provided in Barton Wechsler, "Logic of Inquiry for Strategic Management Research: Standards of Good Practice From the Qualitative Tradition," *New Directions in Public Administration Research*, forthcoming. Analytical procedures were similar to those employed by Mintzberg and his colleagues. See Henry Mintzberg, Duru Raisinghani, and Andre Theoret, "The Structure of 'Unstructured' Decision Processes," *Administrative Science Quarterly*, vol. 21 (June 1976), pp. 246-275.
12. This quotation comes from a personal interview with Kenneth Creasy, former director of the Department of Public Welfare, July 1984.