

Small Country Governments

The Importance of Strategic Coherence

Executive Summary

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As a group, small countries have performed strongly over the past several decades on a range of economic and social measures. However, although the small country group has out-performed the large country group, there is a wide distribution of performance across the small countries. There are some stand-out small country performers (such as the Nordics, Switzerland, and Singapore) as well as some small countries that have lagged (such as Greece).

So what explains the variation in performance between the groups of small and large countries, and also within the group of small countries? How have many small countries been able to overcome the disadvantage of small size? There are two general classes of explanatory factors. First are those factors that are relatively exogenous with respect to small country governments. For example, the development of an open, rules-based global environment over the past several decades has reduced the disadvantage of a small domestic market; many small countries have been active participants in globalisation. And many small countries have intrinsic factors that support good national decision-making, such as high levels of social capital and trust. Overall, these relatively exogenous factors have made a meaningful contribution to small country performance, but do not explain the full extent of the variation.

The second explanatory factor is the nature of small country policy-making. In general, small countries have good economic and social policy settings. However, there is significant variation across the small country group – and those countries that have lower quality economic policy settings tend to generate worse economic outcomes. But there is not a significant aggregate difference between policy measures of large and small countries that would explain the performance variation between the groups.

Indeed, separate empirical evidence suggests that small countries generate better outcomes than would be expected given the quality of their policy settings. This suggests that it is not only the policy specifics that matter, but importantly the “strategic coherence” of policy in small countries. The effectiveness of the policy approach depends on its fit with the country’s circumstances and exposures. Indeed, a wide variety of policy approaches are used by successful small countries, suggesting that they fit policies to their context. Overall, small countries have done well because they have developed coherent policy approaches to respond effectively to the changing global economy.

In other words, small country governments do public sector strategy well; making appropriate national-level policy judgements in response to a changing world, and communicating and delivering on this. This strategic coherence of policy has enabled many small countries to perform well and to overcome the disadvantage of small size.

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Indeed, small country governments approach public sector strategy in a distinctive manner relative to large country governments. Small country governments are much more likely to have national-level strategic conversations that are framed around how to arrange policies to position the country in the global environment. This contrasts with the more domestic, more narrowly-focused type of policy strategy that is common in larger countries. Small countries are not just scaled-down versions of larger countries; they are quite different in how they approach public sector strategy.

The coherence of public sector strategy matters for all governments, but particularly for small country governments given the acute nature of their global exposure. So how should small country governments strengthen their ability to deliver high-quality, coherent public sector strategy? To provide guidance to small country governments, this paper examines four key, inter-related elements of public sector strategy – strategy development; disseminating the strategy; delivering the strategy; and detecting strategic change. The paper considers how small country governments can approach this process in a coherent, integrated manner, drawing on observation of the approaches that have been used in successful small countries – and which may be instructive for others.

In terms of strategy development, successful small country governments develop clear perspectives on their desired national position based on an assessment of the structural dynamics – for small countries, much of this analysis focuses on the impact of global dynamics. This positioning is undertaken in terms of chosen sector verticals, as seen in the UAE, Singapore and elsewhere, as well as in terms of various horizontal policy measures (such as tax, infrastructure, innovation policy, and so on). This strategic positioning is then be converted into strategic policy design that specifies a medium-term policy direction with clear policy priorities; the specific policy and resource allocation choices that are necessary to give effect to the chosen strategic direction.

The second element is the process of disseminating the strategy to achieve understanding and buy-in from both key stakeholder groups and the broader population. Small country governments have used a variety of approaches to communicate the chosen strategic direction, both formal and informal. A sense of shared understanding and purpose has supported the strong performance of small countries, making it easier to sustain a strategic policy direction as well as to change responsively when needed. Public sector strategy is a political exercise as well as an analytic process.



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Third, successful small economies focus on effective and efficient deliverer of the strategy in order to capture the value. Delivering the strategy requires oversight and coordination by central agencies, institutions that link the strategy to resource allocation choices, as well as investments in the capacity of the public sector to deliver – particularly in terms of the quality of human capital.

Finally, high-performing small economies approach public sector strategy as a dynamic process and invest to ensure that their policies remain an appropriate, coherent response to a changing world. For example, foresight and futures work is common in many successful small economies. This is particularly important for small country governments that are particularly exposed to changes in the global economy such as increased competitive intensity, higher levels of economic turbulence, and a weakening multilateral system. Even well-performing small country governments need to adapt, making both tactical and structural changes, to keep their policy approach relevant.

To deliver ongoing coherence of policies, small country governments needs to develop the capacity and institutions to understand the external environment, to continually test the coherence of the existing strategy approach, and to make the appropriate changes in a timely and well-understood way. Successful small countries have a reputation for agility and responsiveness, but will need to continue to invest in this capacity. Sustained strategic coherence will likely be an increasingly important driver of national advantage in a more challenging global

