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STRATEGIC MANAGEMENT: EVOLUTION AND PROBLEMS IN MAJOR LITHUANIAN AND UKRAINIAN CITIES

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Abstract. *The aim of this article is to review the problems of strategic management in Lithuanian and Ukrainian municipalities. The article examines the factors that, in the authors' opinion, do not allow municipalities to take full advantage of strategic management, and attempts to distinguish between competitive (win/lose) and balanced (win/win) strategies. The long-term strategic development plans of the five largest Lithuanian and Ukrainian city municipalities are studied, assessing the balance of indicators of their strategic provisions in relation to four different balanced scorecard perspectives. Currently, the strategic management plans drawn up in Lithuanian and Ukrainian municipalities are not characterized by a balance of indicators. Moreover, the sets of selected indicators do not reflect all aspects of the municipality's activities and strategic plans of municipalities, at least in the case of large Lithuanian and Ukrainian cities. These indicators are also not detailed down to units at the lowest level and to individual employees, and at the same time cannot become strategic action plans or effective communication tools.*

Keywords: municipalities, strategic management, balanced scorecard

Reikšminiai žodžiai: savivaldybės, strateginis valdymas, subalansuotų rodiklių sistema

JEL Classification: M38, R50, R58

Introduction

After the collapse of the Soviet planned economy and the restoration of the independence of Lithuania and Ukraine, an aversion to planning was felt for a long-time in almost all governance structures of public sector organizations and institutions, and the creation of various plans was considered an obsolete relic – a legacy of the Soviet era. A similar attitude even spread to the managers of private companies and organizations, but this has receded, perhaps first due to the realization that successful competition is impossible without constantly responding to changes and the efficient use of available resources, which in turn is difficult to imagine without strategic management. With the beginning of Lithuania's integration processes into the European Union, interest in strategic planning and management began to grow in the public sector, the experiences of other countries were examined, and strategic planning methodologies were developed, according to which public sector institutions, including municipalities, began to develop their plans. Unfortunately, municipal strategic plans are sometimes seen as a necessary precondition for receiving support from EU Structural Funds, rather than as a means of setting clear priorities and directions for balanced and effective action. This formalistic attitude towards the development of strategic plans also leads to flawed practices of strategic management in municipalities, which do not allow for the achievement of expected results and at the same time cause unfounded skepticism and mistrust of time-tested and effective management methods. The different views of scholars on what we would call strategic planning and strategic management and how those concepts are understood have certainly contributed to the skepticism of practitioners.

Aims

This article is aimed at reviewing the problems of strategic management in Lithuanian and Ukrainian municipalities. The following objectives are accomplished in the article: proposing a balanced scorecard as a tool for strategic management; reviewing the evolution of strategy development in Lithuanian and Ukrainian municipalities; and analyzing the evaluation of long-term plans of Lithuanian and Ukrainian city municipalities in terms of sustainability.

Literature Review

Although the term *strategic management* is used very often and there are varying definitions of it, its meaning is interpreted very differently by different authors. In 2007, Nag, Hambrick and Chen conducted an expert analysis of over 500 publications on the subject in an attempt to understand what each author meant when referring to strategic

management, but failed to define it unambiguously. The authors merely stated that the area of strategic management, summarizing the content of the articles they researched, is related to six elements: “(a) the major intended and emergent initiatives (b) taken by general managers on behalf of owner, (c) involving utilization of resources (d) to enhance the performance (e) of firms (f) in their external environments.” One of the reasons for such uncertainty, according to the authors, is the different and ambiguous nature of the object of these studies, which overlaps with such fields as economics, sociology, marketing, finance and even psychology.

The term *strategic management* is also not defined in either of the two strategic planning methodologies currently used by Lithuanian municipalities. Although the concept of strategic planning is better established, views on its links to strategic management are also different. Some authors consider strategic management as one of the stages of strategic planning, while others see strategic planning as an integral part of strategic management. Both positions have their merits. Understanding that this is only a matter of agreement, for convenience we will adhere to the definition of strategic planning proposed in the strategic planning methodology adopted by the Government of the Republic of Lithuania, that “it is a process to achieve the intended objectives and results through the efficient use of financial, material and human resources.” We will consider strategic planning to be an integral part of strategic management, and will define strategy itself on the basis of Chandler (1962): “Strategy can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.” The concept of strategy has been known since ancient times: 2,500 years ago, Sun Tzu wrote *The Art of War*, and in 1832 the Austrian war theorist Karl von Clausewitz published his work *On War*. These two books have had a profound impact on subsequent researchers in the field, and the statements they make, with minor modifications, remain relevant today. This is especially true when it comes to competitive strategies, which can also be called win/lose strategies, or strategies where one side wins at the expense of the other. However, while it is appropriate for war, competition between companies or even states can be difficult to adapt to municipalities, where the strategic goal is sustainable development and the pursuit of the needs of all stakeholders. Such a strategy would be better called a win/win strategy.

The need for a strategic plan for municipalities can be based on several factors (Bryson, 2004) that are more appropriate for a sustainable development strategy rather than a competitive one:

- help the organization organize and execute change;
- improve decision making;
- increase the efficiency of the whole organization (this factor is determined by the first two).

The strategic planning of a public sector organization increases the efficiency not only of the organization itself, but also of the wider social environment;

When it comes to strategic planning, as with all other management processes, the question of its effectiveness arises. How can we measure the effectiveness of a strategy, and what criteria should be chosen for this?

Although all strategic situations are different, Minzberg et al. (2003) singled out some general criteria for strategy effectiveness:

- clear and convincing goals;
- proactivity of the strategy, i.e., whether it is focused on supporting the initiative rather than passively responding to emerging situations.
- concentration of the strategy, i.e., whether all resources and efforts to achieve the goal are concentrated in time and space.
- flexibility – whether there are reserves of resources for a possible maneuver and whether it is easy to reallocate these resources if necessary.
- existence of dedicated leadership.
- unexpectedness, i.e., whether the strategy takes advantage of speed and secrecy factors;
- security – does the strategy enable the security of its core resources and does it provide key procedures to prevent surprises from opponents?

Minzberg et al. (2003) argued that the criteria listed are common to military, business, and government strategies. Indeed, all cases mentioned are within the scope of competitive strategies. However, when it comes to sustainable municipal development, the above-mentioned quality criteria for strategies may not reflect the quality and effectiveness of such a strategy. In the case of non-competitive strategies, a much more important criterion for assessing the effectiveness of the strategy being developed is the balance between the performance indicators sought and monitored. An adequate breakdown of the strategy from the highest levels of government to the lowest could also indicate the quality of the strategy. The latter criterion could also be used in the case of competitive strategies. Competitive and balanced strategies could be illustrated by analogy with the human body: competitive strategies are akin to the use of drugs, where very strong concentrations of active substances affect bodily function; a win/win strategy represents a balanced, wholesome diet that promotes harmonious development to prevent diseases and ailments.

Methods

The document analysis method was used to assess the data. For the collection of research data, selected data sources included: Resolution no. 827 of the Government of the Republic of Lithuania “On the Amendment of the Strategic Planning Methodology” and its amendments; Minister of the Interior of the Republic of Lithuania’s “Methodology for preparation and updating of regional development plans” and its amendments, etc. Document analysis was focused on the five largest Lithuanian and the three main Ukrainian cities’ municipal strategic and planning documents and their reports, along with the annual action plans that reflect municipal planning in terms of the objectives and results to be achieved. The method of document analysis is applicable to the analysis of the municipalities’ legislation (laws, regulations).

Results

The balanced scorecard approach was first mentioned in 1992. The principles of this method were formulated by Kaplan and Norton (2006), who gradually supplemented and developed this method from a simple performance measurement tool to a strategic management tool that forms the nerve center of any organization. This approach unites the activities of all departments and employees of the organization regarding the organization's strategy, turning the strategy into a coordinated action plan.

The balanced scorecard is the core of strategic management, and is based on four very important management processes (Kaplan and Norton 1996):

- revising the strategy and translating it into a specific action program;
- linking strategic goals to measurements and communicating them to employees at all levels of the organization;
- identifying the values of specific goals to be achieved and coordinating initiatives to achieve them at different levels of the organization;
- strengthening feedback on the implementation of the strategy.

The concept of a balanced scorecard is based on the premise that the head of an organization must have a balanced set of measurable scores covering financial, customer, and internal processes as well as areas of innovation and improvement. By applying a system of balanced indicators in organizations, the strategy can be seen as a set of hypotheses related to cause-and-effect relationships. A well-designed system of balanced indicators is a very convenient tool that can clearly convey an organization's strategy, starting with its vision and ending with action plans for its implementation. All four reflective perspectives are linked by consequence-cause relationships.

Although the emergence of the concept of New Public Management has increased the importance of the management function in administration, and organizations operating in both the public and private sector are gaining more and more commonalities, a modified system of balanced indicators is also used (Rohm and Halbach 2005; Quesado 2018; Moullin 2017; Wällstedt and Almqvist 2017; Madsen et al. 2019). This is due to the different nature of public sector organizations. Unlike businesses, whose main motivation is profit maximization, public sector organizations and institutions are focused on fulfilling their public missions. The main focus of a balanced scorecard tailored to the needs of the public sector is becoming a mission, which in turn changes the cause-and-effect relationships between reflective perspectives. The competences of employees and the capacity of the organization determine internal processes and financial stewardship – including the rational use of the budget, as well as the ability to earn funds, which in turn determines the satisfaction of customers and stakeholders.

In addition, the balanced scorecard system can serve not only as a strategy communication tool, but also as a tool for ensuring the coherence of the strategy (Sudnickas 2005, 2008; Sudnickas and Šakočius 2009; Jagminas and Pikturnaitė 2011; Gudelis 2009). In this way, the coherence of the objectives, indicators and action plans at the different levels of the organization are ensured. As the analysis of the action plans of Lithuanian city municipalities shows, indicators are not disaggregated to subordinate subdivisions lower than departments.

Astrauskas and Česonis (2008) divided the implementation of strategic planning principles in Lithuanian local municipalities into four different stages:

1. the first stage – 1990–1994/5, the stage of denial of planning principles;
2. the second stage – 1994/5–2001/2, learning and cognition of the principles of strategic planning;
3. the third stage – 2001/2–2007/8, the stage of the establishment of strategic development plans of municipalities and learning to prepare strategic action plans and program budgets;
4. the fourth stage – from 2007/8, the stage of the development and transformation of unified strategic planning and program budget systems in municipalities into strategic management systems.

The authors distinguished these stages according to five formulated criteria, which included: understanding the need for strategic planning; the relationship between theoretical knowledge and the practical ability to prepare strategic planning documents; the completeness of the strategic planning system, i.e., the number of different duration strategic planning documents prepared; the integration of strategic planning documents; and the integration of strategic planning and other management functions.

In 2013, the Lithuanian Government created a team of strategic planning experts, municipality development specialists and scientific consultants for the preparation of recommendations on strategic planning for Lithuanian municipalities. Astrauskas and Svetikas (2015) noted that one of the main goals of this project was to enhance local democratic governance in Lithuanian municipalities by strengthening the capacity of local authorities to undertake participatory strategic planning.

According to the use of different strategic planning methods, Arimavičiūtė (2005, 2012) divided Lithuanian municipalities into two groups: the first uses the Strategic Planning Methodology; the second the Regional Development Plans Preparation and Update Methodology.

The mandatory statutory methodology for strategic planning and budgeting established by the government was updated at least 15 times between 2002 and 2019 (current version), as indicated on the website of the Government of the Republic of Lithuania.

The first paragraph of the General Provisions of the Strategic Planning Methodology approved by the Government of the Republic of Lithuania defines its designation: “The Strategic Planning Methodology establishes the strategic planning system, planning and approval of planning documents, as well as strategic action plan evaluation criteria, monitoring of strategic action plan implementation results, program evaluation and reporting on results.”

The methodology distinguishes in sufficient detail the guidelines for the preparation of strategic planning documents of various durations (long, medium and short), as well as describing the development of evaluation criteria for strategic business plans and the monitoring of the results of the implementation of strategic business plans. Monitoring the implementation of performance indicators and their performance could be considered as the first step towards the transformation of traditional municipal governance into a strategic management system (Jurkonienė and Karčiauskienė 2017).

In December 2019, the Government submitted a draft Law on Strategic Management to the Seimas. The project proposes to establish a new model of the planning documents system, which will help to: integrate national, territorial, regional, and local self-government planning processes; refine the interrelations of planning documents and their influence on funds planning; and establish strategic management system participants and their rights, responsibilities, and provisions. The aim is to reduce the number of planning documents and the strategic objectives and evaluation criteria (indicators) set in them, to create a more efficient planning and monitoring system, and to strengthen the links between strategic management and state budgeting systems. The appearance of this document could be considered the beginning of the fifth stage of strategic management in Lithuanian municipalities.

The main requirement of a balanced scorecard is to have four different perspectives from performance indicators, reflecting: stakeholder satisfaction, financial performance, internal processes, and the competencies of the employees and the capacity of the organization. At a moment, this is not sufficiently reflected in the Government's strategic planning nor in the municipal strategic plans. The methodology for preparing and updating regional development plans does not mention indicators reflecting different perspectives at all. In the Government's strategic planning methodology, internal process and financial performance indicators are not separated into single groups, but combined into one type of indicators – process and input criteria. Indicators of stakeholder satisfaction and prospects for employee competence and organizational capacity are completely indistinguishable. All of this complicates the monitoring of the performance of municipalities, because without a clearly defined set of indicators related to cause-and-effect relationships, it is much more difficult to assess areas in need of improvement.

Another problem encountered in developing strategic municipal plans in Lithuania is the lack of a breakdown of indicators from higher to lower organizational levels. Strategic plans do not reach individual employees of the municipality even in the units at the lowest level, which prevents the implementation of the coordinated action plan of the municipality and means that it cannot serve as an effective means of communication.

The Ukrainian practice of strategic municipal planning is in line with the best European and world practices, and has been enshrined in regulations and strategic planning documents such as “On the Principles of State Regional Policy” (2015) and the State Strategy for Regional Development Until 2020.

Discussion

One of the aims of this article is to illustrate the use of the balanced scorecard system as a tool for checking the coherence of the strategy and assessing the sustainability of the indicators of the strategic plans of the studied cities.

The long-term strategic development plans of the five largest Lithuanian cities – Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys – were examined. In these cities, 1,163,128 inhabitants lived in 2019. This, according to the Department of Statistics of the Republic of Lithuania, accounted for almost 42% of the total population of Lithuania.

The Vilnius strategic plan (2010–2020) consists of 4 priorities, which were monitored using 17, 11, 12 and 7 indicators, respectively.

The Kaunas strategic plan (2015–2022) consists of 3 strategic directions. In the first direction, 7 tasks were set, the fulfilment of which is monitored according to 59 indicators; in the second direction, 12 tasks were planned and 59 indicators were set; in the third direction, 7 tasks and 40 indicators.

The Klaipėda strategic plan (2013–2020) consists of 3 priorities, the first with 6 objectives, which are monitored through 101 indicators; the second with 4 objectives and 85 indicators; and the third with 4 objectives and 64 indicators.

The Šiauliai strategic plan (2015–2024) consists of 3 priorities. The first priority has 3 objectives and 31 indicators; the second priority 3 objectives and 33 indicators; and the third 3 objectives and 58 indicators.

The Panevėžys strategic plan (2014–2020) consists of 3 priorities: the first with 31 indicators, the second with 72 indicators, and the third with 43 indicators.

In addition, the long-term strategic development plans of the largest Ukrainian cities – Kyiv, Kharkov, Dnieper, Odessa and Lviv – were examined. Around 7 million inhabitants live in these cities, accounting for almost 16% of the total population of Ukraine. At present, the indicators of the strategic plans of the Dnieper and Kharkov are in the process of development, so they were not examined in this paper.

The Kyiv strategic plan for 2017–2025 consists of 3 priorities, which are monitored using 29, 71, and 10 indicators respectively (Kyiv City Administration, 2017). The Odessa strategic plan (2016–2022) is monitored according to 21 indicators, and the Lviv strategic plan (2012–2025) consists of 3 priorities, the first of which is monitored through 9 indicators, the second through 4 indicators, and the third through 8 indicators.

After an analysis of the indicators of all strategic plans, they were assigned to one of the four perspectives of the balanced scorecard: Customer and Stakeholder, Financial Stewardship, Internal Process and Organizational Capacity (Table 1).

In Table 1, the rows represent the priorities of a specific strategic plan in a Lithuanian or Ukrainian city; the first column indicates the name of the city and country; the next four columns represent the four balanced scorecard perspectives; and the sixth column shows the percentage inclusion of indicators from different balanced scorecard perspectives in each priority of the strategy. The figures in the table indicate the specific number of indicators distributed by perspective and percentage of inclusion.

Table 1

City, country	Perspective				Inclusion of indicators from different BSC perspectives by priorities (%)
	Number of Customer and Stakeholder indicators	Number of Financial Stewardship indicators	Number of Internal Processes indicators	Number of Organizational Capacity indicators	
Vilnius (Lithuania)	2	6	32	7	68.7
Kaunas (Lithuania)	0	0	159	24	41.7
Klaipėda (Lithuania)	2	0	211	37	58.3
Šiauliai (Lithuania)	0	0	115	7	41.7

City, country	Perspective				Inclusion of indicators from different BSC perspectives by priorities (%)
	Number of Customer and Stakeholder indicators	Number of Financial Stewardship indicators	Number of Internal Processes indicators	Number of Organizational Capacity indicators	
Panevėžys (Lithuania)	0	0	131	15	50
Kyiv (Ukraine)	6	9	87	9	91.6
Odesa (Ukraine)	0	4	16	1	75
Lviv (Ukraine)	6	4	9	2	83

In order to ensure sustainable city development, each priority of the strategic plan should be monitored using indicators from all four balanced scorecard perspectives. In our case, it is not difficult to observe empty cells in Table 1, which means that some perspectives are not observed. The research shows that of all the Lithuanian cities studied, only the capital, Vilnius, has two priorities with indicators reflecting all four perspectives, while the third priority of Vilnius is reflected only by indicators from the single perspective of internal processes. In Klaipėda, only one priority is reflected by indicators from three different perspectives, while the priorities of the strategic plans of the remaining cities – Kaunas, Šiauliai and Panevėžys – are reflected by indicators from only two perspectives: internal processes and organizational capacity.

A somewhat better situation is observed with Ukraine's strategic plans. Kyiv leads, where only one of the three priorities of the strategic plan has indicators reflecting three perspectives, while the remaining priorities include indicators from all four perspectives. In Lviv, one of the priorities of the strategic plan is reflected by the indicators of all four balanced scorecard perspectives, and the remaining two priorities have indicators of three different balanced scorecard perspectives. In Odessa, where the indicators of the strategic plan were not broken down according to different priorities, three perspectives of the balanced scorecard are reflected.

With some exceptions, in most cases the situation with the monitoring of the strategic plans examined does not allow us to expect fully-fledged and sustainable monitoring of the implementation of these plans. In this sense, Lithuania needs to do more than Ukraine.

Conclusions

1. Due to the different nature of the objectives pursued, there is a difference between sustainable development (win/win) and competitive (win/lose) strategies, and their development and evaluation should therefore be carried out using different methodologies.
2. The strategic management of Lithuanian and Ukrainian municipalities should be carried out in accordance with the principles of sustainable development, rather than a competitive strategy. Minzberg's quality criteria for strategies may not reflect the quality and effectiveness of such a strategy. In the case of non-competitive strategies, which are more specific to municipalities, a much more important criterion for assessing the

effectiveness of the strategy being developed and a balance between the performance indicators is sought and monitored.

3. Currently, the strategic management plans drawn up in Lithuanian municipalities are not characterized by a balance of indicators, and the sets of selected indicators do not reflect all aspects of the municipality's activities. This is due to the fact that the strategic plan indicators in the most widely used methodologies of Lithuanian municipalities' strategic planning, which are used in the preparation and updating of regional development plans, are neither regulated nor recommended.
4. Strategic plans of municipalities, at least in the case of large Lithuanian and Ukrainian cities, are not detailed down to the lowest level units and to individual employees. At the same time, they are not becoming strategic action plans or communication tools that are coordinated by the whole organization. At best, the elaboration of plans ends at the level of municipal departments.
5. Despite the fact that none of the Lithuanian and Ukrainian cities analyzed has a full balance of indicators, the situation with the balance of strategic plan indicators in Ukrainian cities is better than in Lithuania. In all the plans of Ukrainian urban municipalities examined in this paper, the indicators of each priority of the plan were reflected by at least three perspectives from the balanced scorecard.

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STRATEGINIO VALDYMO RAIDA IR PROBLEMOS: DIDŽIŲ LIETUVOS IR UKRAINOS MIESTŲ ATVEJIS

Anotacija. Straipsnio tikslas – apžvelgti strateginio valdymo problemas Lietuvos ir Ukrainos savivaldybėse. Straipsnyje nagrinėjamos priežastys, kurios, autoriaus nuomone, neleidžia savivaldybėms visiškai išnaudoti strateginio valdymo pranašumą, kai bandoma atskirti konkurencines (laimėti / pralaimėti) ir subalansuotas (laimėti / laimėti) strategijas. Išnagrinėti penki didžiausių Lietuvos ir Ukrainos miestų savivaldybių ilgalaikiai strateginiai plėtros planai – įvertinta jų strateginių nuostatų rodiklių pusiausvyra, susijusi su keturių skirtingų subalansuotų rodiklių sistemos perspektyva. Šiuo metu Lietuvos ir Ukrainos savivaldybėse rengiami strateginio valdymo planai nepasižymi rodiklių balansu, atrinktų rodiklių rinkiniai neatspindi visų savivaldybės veiklos aspektų ir savivaldybių strateginių planų, bent jau didžiuosiuose Lietuvos ir Ukrainos miestuose. Rodikliai nėra detalizuojami iki žemiausio lygio padalinių ir atskirų darbuotojų lygio, jie netampa strateginiu veiksmų planu ir efektyvia komunikacijos priemone.

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