

STRATEGIC PLANNING IN HUNGARIAN MUNICIPALITIES (I*)

Izabella BARATI-STEĆ

Izabella BARATI-STEĆ

Visiting Professor, Central European University,
Budapest, Hungary

Tel.: 0036-303-438.045

E-mail: izabella.barati@gmail.com

Abstract

The paper gives a summary of the most recent literature on strategic planning in local governments, while placing the findings in a historical context. It focuses on planning in post-socialist countries, the impact of the heritage of decades of central planning and the relationship between decentralization and planning. The study concludes that while strategic planning improves the performance of local governments, special aspects, such as the financial dependency of municipalities, focus on daily operation and on short-term results and enhanced need of institutional and personal capacity management must be taken care of while implementing strategic planning in local governments.

Keywords: strategic planning, public sector, local government, post-socialist countries, decentralization.

* This research consists of two parts. The current paper – part 1 – deals with general knowledge about strategic planning in a municipal context, and is based on reviewing the literature of the topic developed by scholars, international institutions and the Government of Hungary. Part 2 will summarize the findings of an empirical research based on questionnaires sent to Hungarian municipalities and on interviews with municipal officials.

“Plans are useless, but planning is everything.”

Dwight D. Eisenhower

1. Introduction

Implementing strategic planning is getting more and more widespread in public entities and local governments as well. Incentives for strategic planning include factors inside and outside of the jurisdiction, such as the changing of the economic or political environments, changing citizen expectations and as a consequence the desire to adapt to the environment, to benefit from arising possibilities, to be ready to counter threats, to offer better or additional services. Literature also lists some illegitimate reasons for strategic planning. These include the stress from media highlighting the need for strategic planning, administrative rules mandating strategic planning, or simply when a new political appointee wants to change everything his or her predecessors did.

Strategic planning as part of settlement development has major importance in the lives of the inhabitants of a particular settlement. Settlement development itself is a complex system if we take into account the complexity of tasks to be carried out, as it comprises finding answers simultaneously for environmental, technical, and economic challenges. Besides responding to these challenges coming from outside the community, a strategic plan also comprises a response to community concerns. A strategic plan itself is a response to change and also provides steps to be followed when change is needed, that are in line with the long term vision of the local government. Strategic planning can help today's governments to become more effective.

Effective local governments are able to respond to citizens' needs for sustainable service delivery; they are resistant to shocks and able to alleviate hardships on citizens caused by economic or environmental crises.

2. Strategic planning in a centralized setting

In countries where there is a continuing threat of social upheaval and during crises, there is a tendency to give fewer discretionary powers to local governments (Bahl, 2004). Also, one naturally finds higher centralization in countries where the GNP per capita is low. There are reasons for that, since creating bigger units means (i) reaching economies of scale, (ii) better control of central deficit, (iii) the stabilization policy is protected as the use of fiscal policy tools are in one hand¹, (iv) infrastructure investments are centrally supervised, and finally, (v) interregional disparities can be treated easier, as decentralization has a counter equalization aspect.² In centralized

1 This is needed as the GDP of these countries is 1.5 times more volatile than in developed economies (...), so, swings in the interest rates change the sovereign debt values (Greece). Natural disasters have larger effects as well since the economy is dependent on a single resource or product.

2 Decentralization is rarely straightforward, rather a trial and error process. If measures are thoughtfully taken, the adversary impacts – such as increasing local deficit and corruption – are

countries there is little or no room for local strategic planning. Investments are planned and realized centrally and local borrowing is often subject to direct approval from a higher level government.

According to the IMF (2015) the new wave of centralized investment planning after 2008 '(....) is to target scarce funds to key infrastructure bottlenecks, ensure that investment projects comply with rigorous standards of evaluation; establish a pipeline of strategically important projects to be financed through public, private, or hybrid financing mechanisms; share expertise in project management; and track project execution.'

3. Strategic planning in post-communist settings

Post-socialist countries in Europe can be divided into two groups. Those that joined the EU or had strong EU influence started their decentralization in the 1990s. The post-soviet and Balkan countries started their decentralization process at the beginning of the 21st century, after revolutions or wars of independence.

In countries with a shorter history of democracy and recent decentralization, the first stage of decentralization, the first wave of legislation usually creates the framework for a decentralized public administration system. The second stage, the second wave of legislation focuses on ensuring enhanced public accountability and transparency.

According to a definition on the UN website, 'good governance promotes equity, participation, pluralism, transparency, accountability and the rule of law, in a manner that is effective, efficient and enduring'. Centralized governments assume responsibility for ensuring public goods as they have been determined by the state.

In post-communist countries, the heavy planning economy of the past has left its heritage on the planning practices of today. Plans focused on rural development and in many cases on directly suppressing development in rural areas.

3.1. Planning between 1945-1990 – the example of Hungary

After 1945 the small villages, being at the bottom of the settlement-hierarchy, were deprived from development funds. Central development plans only considered sectoral, industrial perspectives, while regional differences were ignored. In 1971, the 'National Settlement Development Concept and Regional Development Principles' ended this practice, but they still did not solve the problem of the already declining regions. It was a town development concept, supposing that towns, as centers of development, will have a positive effect on their rural surroundings.

3.2. Planning between 1990-2010

Soon after 1990, after becoming independent, municipalities – at the very beginning mostly as an (i) outcome of foreign aid, (ii) a requirement of the European

eliminated or outweighed by the positive impacts, e.g. the efficient allocation of economic resources, democratic governance, enhanced accountability and transparency (Bahl, 2004).

Union before the accession, (iii) eventually, as a recognized need – started to develop investment plans and to involve the private sector and non-governmental sectors into regional development.

During the very early years, planning only concerned budget and investment plans (expenditure side of the budget) and still, territorial planning, development planning, and strategic planning in Hungary are often used as synonyms. State regulations and institutions focused on the comprehensiveness of the plans at the various levels of government. The municipal, county and state development plans had to be in accordance with each other. In order to reach this ‘harmony’ and avoid conflicting plans, the state used its subsidy system as a tool. If the plans of municipal level did not fit into the plans of higher levels, they faced decreasing subsidies thus ensuring plans to be in line with each other. This nudging on the other hand is not particular in CEE countries, state subsidies usually arrive labelled to the local level in order to nudge decision makers towards fulfilling central preferences.

Municipalities could form regional development associations, the purpose of which is to create common funds, coordinated programs, and to fulfil the minimum number of citizens served in a given area required from grantees by the state. Regional development municipal associations are represented by one appointed member in the county regional development councils. County regional development councils were formed in 1996. These were special bodies working at the county level, with the purpose of representing national regional development goals and coordinating the different county development plans.³ The county regional development council reviewed each micro region’s development plan. While there was no hierarchical relationship among the plans, those not matching the county’s preferences did not receive county funds.

The next level of development was the level of the regions. Two or more county regional development councils could establish a regional development council in order to treat problems that require larger capacities than exist in a single county.

3.3. Planning after 2010

After the economic downturn in 2008, many countries modified their public administration and systems and public finances. Two groups of countries increased their local government expenditures in the EU. One group is formed by the most

3 The set-up of the county regional development councils illustrates that regional development is not only the responsibility of the state, but requires the co-ordination of several actors. Members of the county regional development council include: the chairman of the county government assembly; the mayors of the cities with delegated county rights; representative of the Minister of Environment; representatives of chambers of commerce from the county; representatives of the municipal regional development associations from the county (one for each statistical micro region in the county); representatives of the labour council from the county (one for the employer and one for the employee side).

decentralized Scandinavian countries and the other group consists in the countries originally with negligible local services. In other countries of the EU, the fiscal crisis resulted in centralization, including Hungary (Council of European Municipalities and Regions, 2009).

After 2010, referring to the economic difficulties caused by the economic downturn of 2008, the government reforms in Hungary included creating a new administrative level – deconcentrated units of the national government – between the level of the counties and municipalities (175 new units have been created below the county level).

As a result of the reform, the regional development councils, county development councils and the micro regional development councils were abolished. The formerly not for profit companies, the regional development agencies were transferred into state ownership, and brought under the supervision of the minister responsible for development, and municipalities perform the tasks that emerge at the regional level. At the central level, the Ministry of National Development coordinates the regional policies. The county is responsible for the coordination of the tasks.

The New Szechenyi Plan is the tool of the central government to ensure that tasks related to regional development at the local level are being carried out (OECD, 2015). The key challenges Hungary is facing are decreasing regional disparities between east and west, urban and rural settlements, and reducing the development gap with the EU average. Strategies are aimed at the improvement of territorial competitiveness and catching up for the territorial integration into Europe. The main documents for the framework of strategical planning are the Act on Regional Development and Physical Planning and the National Spatial Development Concept.

At the end of 2014 (1st of December) the Office for National Economic Planning (ONEP) was created, but since then it was already placed under the supervision of the Ministry of Economy. One of the key objectives of ONEP according to its website, was strategic planning at the national level and creating the framework for local strategic planning in order to give answers for the challenges of the 2014-2020 development policy period, such as to promote the social, economic and regional development and the quality of environment in Hungary. It also works in cooperation with the Visegrad 4 Countries (V4 – Poland, Hungary, Czech Republic, Slovakia), Bulgaria, and Romania for Territorial Development.

The main critique of the latest regulation on municipal planning and strategic planning is that it gives municipalities the possibility to only disclose the accepted strategic plan – it is obligatory to disclose the accepted plan – but the municipality decides who it considers stakeholders in the matter and who it will invite for the discussions.

Figure 1 gives an overview of the Hungarian Territorial System (a) before the transition, (b) between 1990 and 2013 and (c) the most recent situation.

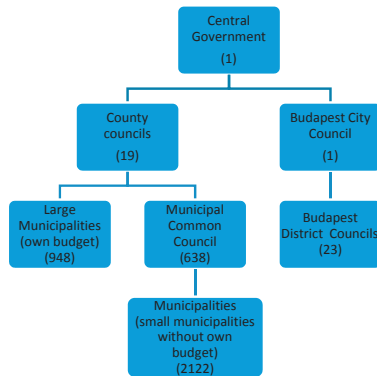


Figure 1.a: The Hungarian Territorial System before 1990, the system of councils

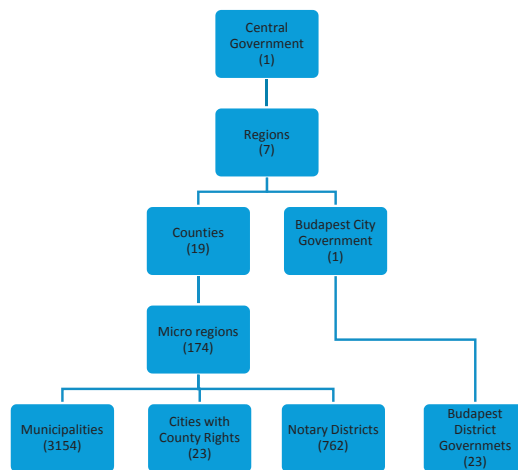


Figure 1.b: The Hungarian Territorial System between 1990 and 2013

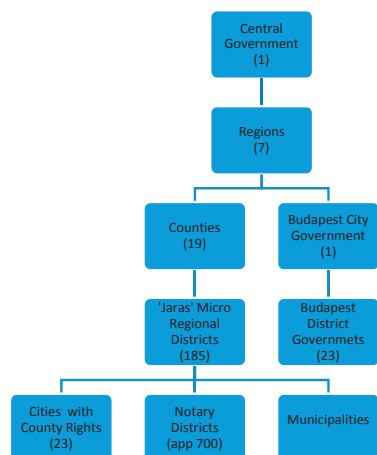


Figure 1.c: The current Hungarian Territorial System as a result of the 2013 reform

4. Strategic planning and innovative local governments?

Does strategic planning help innovation?

It is a question whether strategic planning can be viewed as innovation at all. Kaufman and Jacob (1987) argue that strategic planning is simply a mixture of different traditional planning methods already in use, meaning that strategic planning is not new, thus it is not innovation.

While preparing strategic plans, just by being engaged in the process, employees are collecting the necessary data to help identify important issues in a community. The planning process itself can educate citizen participants about the functions and goals of the municipality. It brings together and enhances cooperation between the public, private and NGO stakeholders at several levels within the jurisdiction. Strategic planning helps consensus building. Local governments, as a consequence, benefit from implementing a strategic plan at many levels (Pindur, 1992).

Innovation in the municipal sector means the creation and implementation of new processes, products, services and service delivery methods which result in significant improvements in outcomes' effectiveness. Introducing strategic planning – based on that – can also be considered an *incremental innovation* as without the need for policy or legislative modifications, it still can have some success.⁴

Business entities based on their *disposition towards innovation* can be grouped into (i) first movers or pioneers; (ii) early adopters; (iii) followers; (iv) laggards and, finally, (v) resisters. In the business sector, first movers are categorized by a high degree of creativity, commitment to well-managed risk-taking (including learning from 'honorable' failure).⁵ Similar to this classification, according to Boyne and Walker (2004) public organizations can be characterized as prospector, defender, or reactor regarding their attitude to strategic planning.

If we accept that a core function of a municipality is to be effective while responding to citizens' needs, be resistant to shocks and able to alleviate hardships on citizens caused by economic or environmental crises, we could conclude that

4 We talk about radical innovations when new services are developed. Systemic or transformative innovations require fundamental changes in organizational, social and cultural arrangements.

5 People with a diversity of background and experience are welcome and encouraged to work together. These teams display openness and tolerance. Their costs could be high due to constant development and learning. Early adopters are more cautious, they are organizations that carefully watch the developments by first movers, and are quick to introduce those, when innovations appear to be successful. Followers are relatively risk averse so they prefer to wait for the beneficial impact of innovations to be proved before seeking to introduce them. Laggards often require external pressures – threat to survival, contestability or take-over, overwhelming evidence of adoption of the innovation in the rest of their sector – before adopting an innovation and focus on how their organization or circumstances are different from others, without exploiting this difference to produce their own innovations. Resisters stick to the existing way of doing things and are slow to recognize changes in the environments or markets within which they operate.

innovation should be a core activity of the public sector as it improves the performance of public services, increases public value and responds to the expectations of citizens.

At the same time there might be several barriers to public sector innovation, even a small, incremental scale. Municipalities tend to spend on operation rather than long term investments (Bahl, 2004), which understandably undermines strategic planning. This behavior is even more typical during and after economic turmoil. In addition, in post-communist countries the likely financial dependency of municipalities on higher levels of governments is an obstacle for any kind of planning. As long as municipalities are dependent on central resources for local service provision, one cannot talk about independent decision-making and local accountability. It is difficult to immerse in strategic thinking and also to obtain the financial coverage for it when local governments are cash-strapped and need to focus on daily operations (Kovach and Mandell, 1990). Public bodies also often face intense political and media control before ideas have been fully developed and would bring in the necessary results. As a consequence, a culture of risk aversion and focus on short-term delivery pressures are associated with municipal operations.

5. Strategic planning and strategic management

Vinzant and Vinzant (1996) argue that strategic planning without strategic management will not lead to the results expected by governments. Another critical component for achieving the goals is resource allocation.

Many municipalities fall into the trap of making financial and budgeting plans and calling them strategic plans. This, on the one hand is understandable, they have control over their expenditures, but not over their income. According to Bryson (2004) strategic planning should precede budget planning, not the other way around. Resource planning is also about human and institutional capacity management. Resource allocation also involves appropriate institutional capacities to perform real strategic planning, trained employees and the adequate infrastructure to prepare and implement strategic plans. Denhardt (1985), Pindur (1992), and Bryson (2004) also emphasize the need for capacity building as 'without the proper investment of resources and time, the benefits of strategic planning will not likely be gained'. Poister and Streib (1989) also state that in order to perform good strategic planning a vast set of skills and resources are required. In order to obtain these skills, training employees is necessary and decisions on who is training them and who issues the training certificates must also be made.

This comes clear especially in post-communist countries where, due to poor working conditions and low salaries, trained employees will leave their public positions within a few years (Pietersen-Oni, 2014) to work outside the public sector. As a consequence, besides the training activities, working conditions and salaries also contribute to the efficiency of performing local government functions, strategic planning and delivering results. Career planning for public employees, sustainable public service pension plans for public employees and also departure methods have

to be elaborated, including financial arrangements and a social safety net, making human resources management an integral part of strategic planning (Kerr, 1994; Ingraham, Joyce and Donahue, 2003; and Rainey, 2003).

6. Benefits of strategic planning – strategic planning and performance

Strategic planning can lead to realizing the objectives of the institutions and to improved performance. Rhyne (1986) found that, in private companies, long term planning focusing on external factors correlate with superior 4-year and 10-year total returns to stockholders. Siciliano (1996) also argued that organizations – YMCAs⁶ in his research –, regardless of size, that used a formal approach to strategic planning had higher levels of financial and social performance than their peers using less formal processes. The planning in these examined cases was also assigned to a subcommittee of the board rather than to the board's executive committee or to an outside consultant.

On the other hand, the relationship between planning and performance might be more nuanced in the public sector, where salaries are usually capped by laws. As a result, special attention must be given to the employees' appraisal and recognition systems. In their study on strategic planning in UK public entities, McAdam, Hazlett and Casey (2005) summarize that although public employees had an understanding of strategic planning and perceived it as being beneficial, concerns were raised that the approach would be considered as an annual event, rather than an ongoing process, due to the motivating factors within the public organizations.

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