

# ORGANIZATIONAL BACKGROUND OF COMPETITIVENESS, APPLICATION OF NEW MODELS IN THE PUBLIC SECTOR

## *A VERSENYKÉPESSÉG SZERVEZETI HÁTTERE, ÚJ MODELLEK AZ ÖNKORMÁNYZATI SZEKTORBAN*

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### **Abstract**

To improve regional competitiveness with a special regard to large urban zones (LUZ), understanding of organizational background and analysis of possible methods and levels of cooperation is a key element. It is a relatively new research area to identify and map organizational structures and configurations in the business sector, whereas strategic planning goes back in historic time.

This study concentrates on two main issues. On the one hand, the organizational models, mainly defined for the corporate and private sector by Henry Mintzberg will be studied by the evaluation of their applicability in the public sector, with a special regard to the municipal sector in Budapest. Structural and operative organizational models will be distinguished in project management by introducing and evaluating their differences. On the other hand, this study examines the existing and possible opportunities of synergies between the municipality, its fully owned public utility companies and other actors to establish a reliable and also flexible and open structure for accomplishment integrated approaches. The model defines a municipal organizational model not exclusively but inclusively, together with its own corporate and institutional structure, including universities, research centres, civil organizations and SMEs, too. The aim of this strategic management approach is to build up a model that ensures the maximal EU funding absorption during the 2014–2020 programming period, despite the decreasing allocation available for such developed regions as Budapest.

Keywords: EU strategy, public sector, organizational structures, strategic planning

### **1. Introduction**

The main focus of this study is a new EU related strategic management model at the municipal sector. The model concentrates on the Municipality of the city of Budapest and the Central Hungarian Region for the reason that decrease and structural rearrangement of financial resources are expected in this area. At the same time the support ratio changes too, in the 2014–2020 EU financial period regarding to the fact that the Central Hungarian Region with the city of Budapest is among more developed regions when talking about its eligibility of funds. The importance of this theme is strengthened both by the European Commission for Europe 2020<sup>1</sup> and by the Position of the Commission Services on the

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<sup>1</sup> Brussels, 22. 4. 2013, COM (2013) 246 final, 2011/0276 (COD): <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0246:FIN:EN:pdf>

development of Partnership Agreement and programmes in Hungary for the period 2014–2020<sup>2</sup> documents. The budgetary period calls for such main focuses as smart sustainable and inclusive growth, at the same time the need for integrated approach also appears in order to ensure a better absorption and combination of different financial resources and funds.<sup>3</sup>

Though this study concentrates mainly on the extended internal structure of the Municipality of Budapest, from the point of view of the municipal sector, it is important to analyse both the external and internal environment of a potential strategic management model.

It is also worth mentioning that planning and implementation of strategic management models is a continuous activity (Csath, 1998) with aims and strategic actions for implementation. During evaluation of results the successfulness of a strategy or a model has to be measurable by pre-defined indicators. As it is defined by the above mentioned Commission document, too: *„a description of the strategy and its objectives, a description of the integrated and innovative character of the strategy and a hierarchy of objectives, including clear and measurable targets for outputs or results. The strategy shall be coherent with the relevant programmes of all the CSF Funds involved.”*

This study gives possible solutions and definite tools for the municipal sector for contribution to achieve the goals defined in the Partnership Agreement for Hungary.

## **2. Material and method**

The models and result of this study are based on document and data analyses of the European Union, with a special regard to the documents of the 2014–2020 budgetary period, Commission Reports, country-specific recommendations and various official publications of the EU, especially the documents in connection with regional and urban analyses and agenda. Such recently published document as the draft Regional Competitiveness Index 2013, the Joint Research Centre reports on Quality of Life at the sub-national level, the ESPON Siesta study were also analysed. Besides document and data analyses, the scope of the study was also expanded to corporate sector organizational models and their applicability in the public sector in order to establish models that give new and adequate possible solutions for well established and better resource absorption.

## **3. Results and Discussion**

### ***3.1. Environmental assessment***

According to the European Environment Agency (EEA) report, 2006, approximately 75% of the European population live in urban areas.<sup>4</sup> “On 1 January 2011, the population of the EU27 was estimated at 502.5 million, compared with 501.1 million on 1 January 2010. The population of the EU27 grew by 1.4 million in 2010, an annual rate of + 2.7 per 1000 inhabitants, due to a natural increase of 0.5 million (+ 1.0‰) and net migration of

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<sup>2</sup> Ref. Ares (2012) 1286381 – 30/10/2012, [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/regulation/pdf/2014/proposals/summaries/general/general\\_summary\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/summaries/general/general_summary_en.pdf)

<sup>3</sup> Brussels, 22. 4. 2013, COM (2013) 246 final, 2011/0276 (COD): <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0246:FIN:EN:pdf>

<sup>4</sup> EEA report: Urban sprawl in Europe.

0.9 million (+ 1.7%).”<sup>5</sup> By looking at the data above, it is obvious that the main goals, defined in the budget 2014–2020 are in close connection with the problems of cities, too.

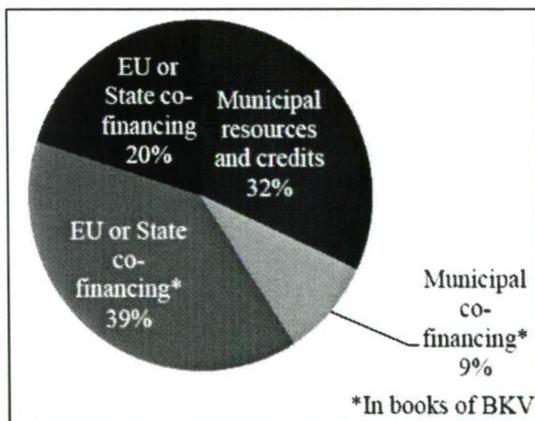
The simplified organizational model of the Municipality of the City of Budapest will be introduced in this study, on the basis of the organizational model mainly defined for corporate sector by Henry Mintzberg, and also it focuses on the operative organizational model of project management which is outstandingly important from the point of view of EU-financed developments. The *Illustration of the basic design school model*<sup>6</sup> by Mintzberg and the *7S-modell* by Waterman, Peters and Phillips<sup>7</sup> were used as the basis of Budapest municipal models, though some specific issues had to be taken into account. The trend of resource allocation and its financial side cannot be altered significantly in Budapest, regarding to the outstandingly high internal debt of the BKV (Budapest Transport Company). This problem is recognised not only at local but also at European level too, as it is mentioned in the Position of the Commission Services on the development of Partnership Agreement and programmes in Hungary for the period 2014–2020:<sup>8</sup>

„Lack of progress in restructuring public transport (e. g. ... Budapest Transport Company – BKV) has been one of the key reasons for budget slippages in recent years.”

Figure 1 shows the allocation of resources of Budapest in 2011, in relation to expenses of reconstruction and development.

**Figure 1. Resource allocation of reconstruction and development in Budapest, 2011**

**1. ábra. A felújítás és fejlesztés forrásmegosztása Budapesten, 2011**



Source: Municipal Economic Program (2011), own editing

Capitalized assets in books of BKV: 84 billion HUF state or EU co-financing and 20 billion municipal co-financing, capitalized assets in books of the municipality or of its institutions: 70 billion municipal resources and credits, 44 billion state or EU co-financing as Figure 1 shows. It can be stated that reconstruction and development expenses are mainly financed by the state or the EU which in itself justifies that during strategic planning such model has to be established which ensures the utilization of funds for projects that are planned, consistent, efficient, successful and also sustainable.

<sup>5</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-28072011-AP/EN/3-28072011-AP-EN](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-28072011-AP/EN/3-28072011-AP-EN).

<sup>6</sup> <http://www.strategy-keys.com/strategic-planning-samples-amazon-part-2.html>

<sup>7</sup> Business Horizons (1980).

<sup>8</sup> Ref. Ares (2012) 1286381 – 30/10/2012, [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/regulation/pdf/2014/proposals/summaries/general/general\\_summary\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/summaries/general/general_summary_en.pdf)

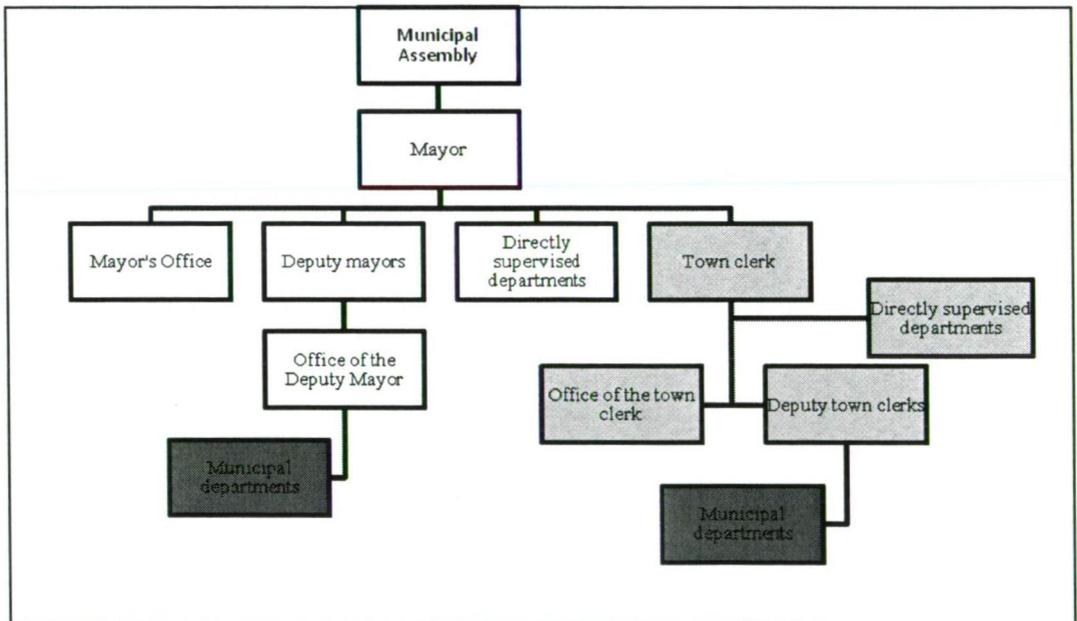
### 3.2. Organizational background of strategic planning

Strategic planning is a series of decisions in which we define main goals for an organization in general and also for a specific policy area in order to make our organization capable of accommodation to its external environment and its changes in the most effective and successful way. Four types of a strategy can be distinguished: reactor, defender, prospector and analyzer (Snow, 1978),<sup>9</sup> mainly defined for the corporate sector. Also, a strategy has different levels within the organization (Csath, 1998). In the followings integrated models will be introduced by synthesis of organizational and strategic models of corporate-sector and gives their alternative applications in the public sector. The study examines the organizational structure of the Municipality of the City of Budapest in itself and together with its institutional system, too.

First, the structural and operative organizational model will be introduced in relation to EU project management processes. Figure 2 shows the structural operational model of the Municipality of Budapest. This hierarchical organization includes a dual structure in itself with the leadership of the local government and the bureau as it can be seen in Figure 2. At the same time, by taking into account the organizational models, it is a functional organization, too (Marosán, 2006).

**Figure 2. Simplified structural organizational model of the Municipality of the City of Budapest, 2013**

**2. ábra. Budapest Főváros Önkormányzatának egyszerűsített szervezeti modellje, 2013**



Source: own editing, based on: <http://infoszab.budapest.hu:8080/akl/szsa/SzervezetiFelepites.aspx>

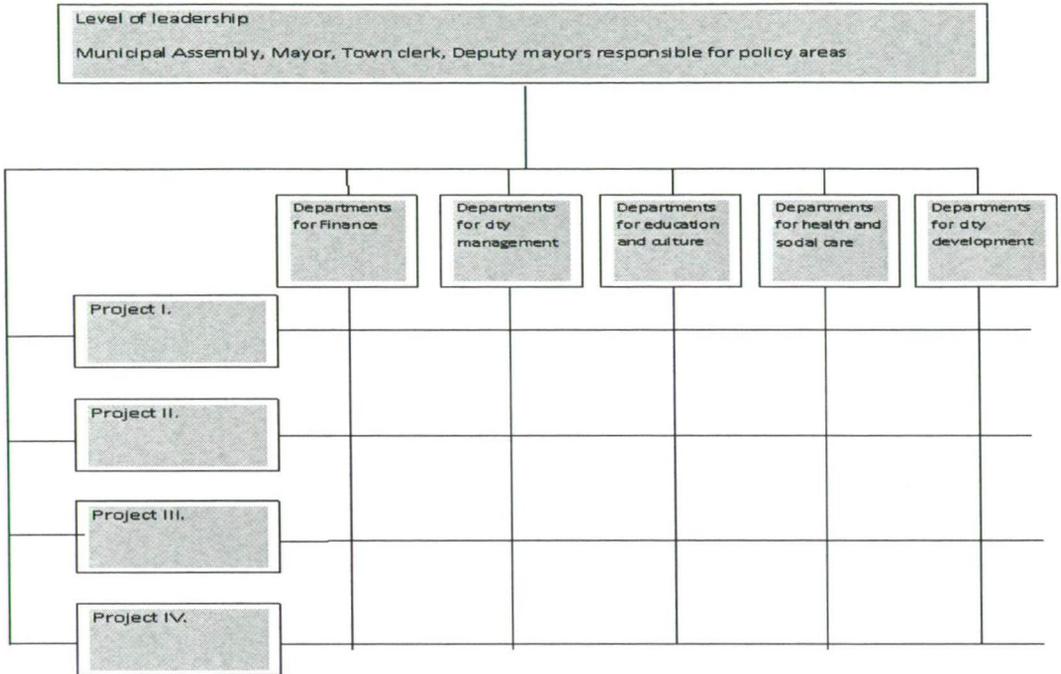
The operative organizational model will be introduced with a special regard to municipal project management activity. Figure 3 shows the operative connections between the leadership of the municipality and the departments as operative units during the preparation and

<sup>9</sup> Nemes Ferenc–Makó Csaba (2008): Vezetés és Szervezetelmélet, Bp., SZIE Kiadó, pp. 160–169.

implementation of an EU-financed project. This operative structure is formed within the above mentioned hierarchical structure in a way that in function it is similar to a matrix-type organization where the operational units are in mutual connections with each other.

**Figure 3. Operative, matrix-type organizational model of strategic project management of the Municipality of Budapest**

**3. ábra. Budapest Főváros Önkormányzatának operatív, mátrix típusú stratégiai projektmenedzsment modellje**



Source: own editing

The operative model above, in case of specific EU-financed projects, gives the possibility for cooperation between such actors of the organization which, at the level of bureau leadership, belong to separate leader-line and policy area. By opening the typical hierarchical model, opportunity of new synergies occur, at the same time specific professional tasks (e. g. preparation for technical, legal, procurement tasks) can be accomplished by the most appropriate and specialized experts of an area. This model also ensures that by close cooperation of units, high quality and well prepared project ideas occur in operative preparation even at the level of planning. It is also important to mention that project planning is not ad hoc but can be accomplished only after detailed overall strategic planning, and the operative structure above “only” gives a stable and secure background of accomplishment. The organizational models defined by Henry Mintzberg<sup>10</sup> can be applied for public sector organizations, too but in case of each organizational structure a distinction between strict structural and operational model is suggested, with a special regard to the implementation of special policy activities.

Preparation and implementation of integrated projects are also possible with the organizational model, introduced above, as experts of different policy areas are delegated to

<sup>10</sup> Mintzberg Henry (1979): The Structuring of Organizations. Engelwood Cliffs, NJ, Prentice Hall.

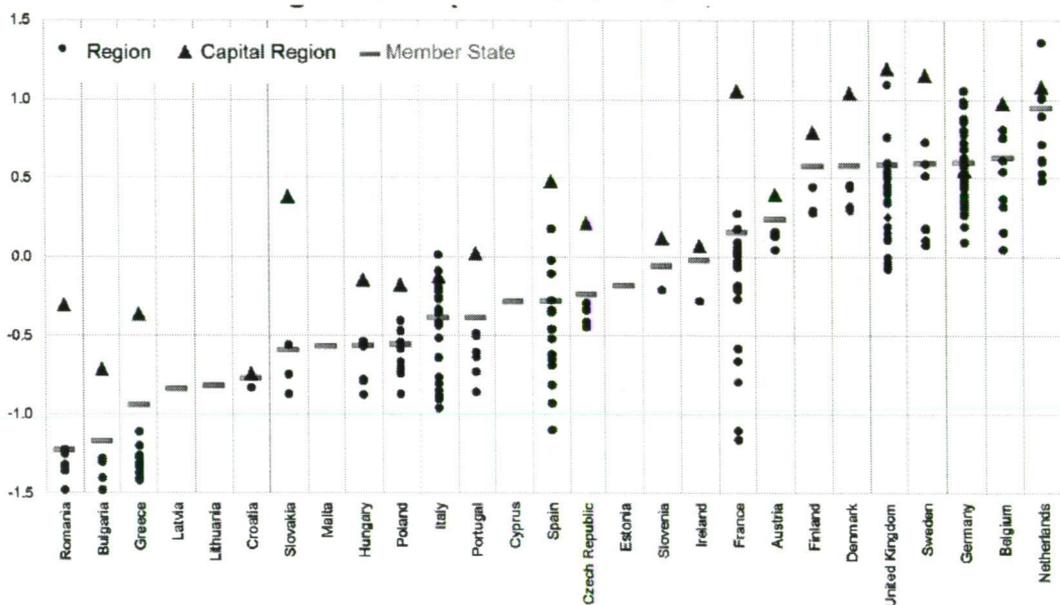
strategic teams, at the same time the goals, defined by the Commission Services for the city, can be achieved more easily:

*„Put in place and reinforce an appropriate governance and management structure in major cities (especially Budapest), to ensure integrated planning and management.”<sup>11</sup>*

### **3.3. Opportunities of synergies for increase of source absorption after the implementation of the „New city Management Model” in Budapest in 2010**

According to the recently published draft EU Competitiveness Index (RCI, 2013);<sup>12</sup> territorial competitiveness has a strong regional dimension in the EU and the capital regions almost always the best performers within the county, except for Germany and Italy as it can be seen in Figure 4.:

**Figure 4. Regional Competitiveness Index, 2013**  
**4. ábra. Regionális Versenyképességi Index, 2013**



Source: RCI (Annoni, Dijkstra, 2013)

It can be stated by the analysis of the index above that the RCI of Budapest Capital Region is high above other Hungarian regions and the average index of Hungary, though a strong distinction can still be seen between the Eastern and Western part of Europe. This difference can also be detected in case of GDP/head (PPS) averages, business sophistication, innovation, labour market efficiency, higher education and lifelong learning and regional technological readiness indexes, too. At the same time, according to the applied research SIESTA (2013):<sup>13</sup> *“When analysing the spatial location of LUZ of the cities de-*

<sup>11</sup> Ref. Ares (2012) 1286381 – 30/10/2012, [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/regulation/pdf/2014/proposals/summaries/general/general\\_summary\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/summaries/general/general_summary_en.pdf)

<sup>12</sup> [http://ec.europa.eu/regional\\_policy/sources/docgener/studies/pdf/6th\\_report/rci\\_2013\\_report\\_final](http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/6th_report/rci_2013_report_final)

<sup>13</sup> ESPON: SIESTA, Spatial Indicators for a „Europe 2020 Strategy” Territorial Analysis, Applied Research draft version, 2013.

*pending on the amount of transnational enterprises/corporation (TNC) headquarters located there, it is difficult to establish a pattern. What is clear is the fact that in countries that accessed EU in 2004 or later only three cities (Warsaw, Budapest, Prague) were able to attract TNCs to locate their headquarters there and thus be included in the network of global connections”.*

The quotation above rises the question whether the capital region in Hungary is capable of positioning its fully or partly owned public utility companies and if the answer is yes, than which is the best way to do so.

A new city management model<sup>14</sup> was worked out and introduced in Budapest with the reorganization of the institutional system of city management at the end of 2010. Two holdings were founded: one for the unified management of public service companies (BVK-Budapesti Városüzemeltetési Központ, literally the Centre for Budapest City Management) and the other for the coordination and management of all transport-related tasks. This latter body is the Budapesti Közlekedési Központ (literally translated as Centre for Budapest Transport, hereafter referred to as BKK). Among others important reasons for implementation of this model were to ensure the owner-driven strategic planning and realization and support of the needs of the owner as the contracting party. A new level was introduced within the institutional structure between the municipality and its public utility and transport companies. This level of the holdings ensures integrated management in policy organization, ordering services and control in harmony with both the needs of the owner and professional viewpoints of each policy area. Though detailed analysis of the new structure is not part of this study, the structure of holdings gives promising opportunities during strategic planning and this way at the level of EU resource-management, too. By the close municipal cooperation with the BVK and the BKK in the framework of the new city management model the municipality can prepare projects together with the companies and this way absorption of financial resources can be increased. It can also contribute to achieve the following goals, defined by the Commission Services:

*„Put in place and reinforce an appropriate governance and management structure in major cities (especially Budapest), to ensure integrated planning and management; define integrated sustainable urban transport plans.... Ensure the effective implementation of EU environmental “acquis” in the sectors of waste management and wastewater management as well as horizontal provisions concerning environment impact assessment and strategic environment impact assessment.”*

This model, in harmony with the need for Community-led Local Development (CLLD):

*„Designed taking into consideration local needs and potential, and include innovative features in the local context, networking and, where appropriate, cooperation.”* and the need for integrated Territorial Investment (ITI):

*Where an urban development strategy or other territorial strategy or pact as defined in Article 12(1) of Regulation [ESF] requires an integrated approach involving investments under more than one priority axis of one or more operational programmes, the action shall be carried out as an integrated territorial investment” defined by the Commission.<sup>15</sup>*

Can and should of course be broaden and developed by other actors such as universities, research-centres, NGOs in order to open further resources and increase absorption of funds.

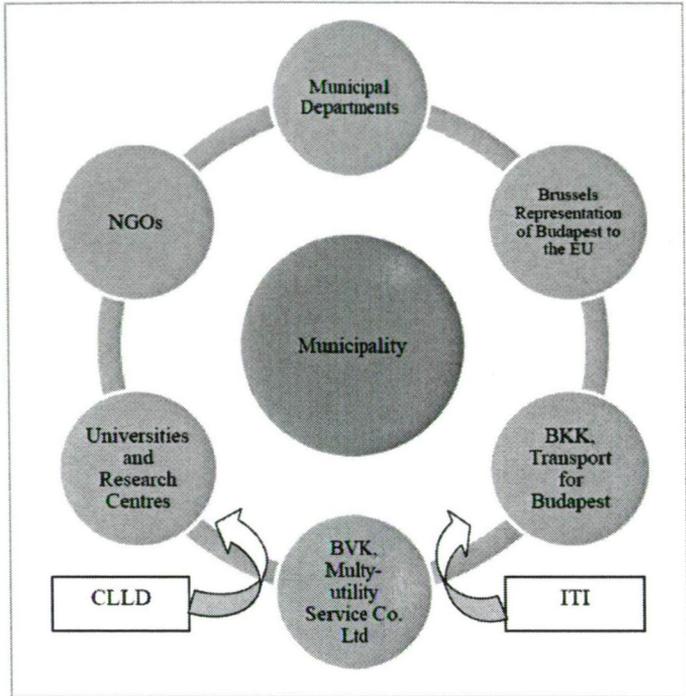
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<sup>14</sup> [http://mobilitasihetbudapest.hu/konferencia\\_anyagok\\_2010/MobilitasiHetGyorgyIstvan.pdf](http://mobilitasihetbudapest.hu/konferencia_anyagok_2010/MobilitasiHetGyorgyIstvan.pdf)

<sup>15</sup> Brussels, 22. 4. 2013, COM (2013) 246 final, 2011/0276 (COD).

Figure 5 introduces a potential simplified strategic management model in which the municipality works together with different actors of not only at public but at regional level, too.

**Figure 5. The simplified strategic management model of Budapest**  
**5. ábra. Budapest egyszerűsített stratégiai menedzsment modellje**



Source: own editing

By the analysis of EU-related tasks of the Municipality of Budapest it can be stated that by the point of view of strategic planning, the city and so the municipality has numerous tasks and of course on-going projects practically in all thematic priority areas defined for developed regions by the EU. The new and integrated approach in city management and strategic planning is a good opportunity to harmonize developments and take advantage of synergies between different policy and implementation areas. By taking into account the goals of the EU 2020 thematic priority areas it is obvious that those can be accomplished only in case of close project cooperation between all actors of different levels within the region and at international level, too.

### Literature

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[http://mobilitasihetbudapest.hu/konferencia\\_anyagok\\_2010/MobilitasiHetGyorgyIstvan.pdf](http://mobilitasihetbudapest.hu/konferencia_anyagok_2010/MobilitasiHetGyorgyIstvan.pdf)