

3 Strategic Management

3.1 Background

The challenges that worldwide Customs administrations face in their political, social and economic surroundings make Strategic Management an essential condition for the building of a modern organization fit for purpose.

For many years, Customs has been primarily fiscally orientated through the levying of import and export duties. Although for many countries this remains its primary task, border management responsibilities are expanding rapidly in all Customs administrations.

Current environment

In the 21st Century, the globalization of international trade and the relative ease of international travel are changing the traditional relationship between the trading community, the public and border management authorities. There is also increasing pressure on governments to comply with regional and international standards relating to the movement of people and goods. Notably the standards now demanded by the security and facilitation agendas of the UN, the WTO, the WCO and both the developed and developing world.

Advances in technology have reduced the significance of geographical border crossing points. This has led to a requirement to develop Customs' ability to apply regulations to control goods and people at any point in the international supply chain and travel routing. In the case of goods this applies to any point in the supply chain, from loading at the point of manufacture to unloading at the point of distribution and, in the case of people, from the point of departure as well as to arrival.

It is not uncommon to find that Customs are now expected to provide wide-ranging support to government policy. This includes supporting traditional revenue collection, economic development and security to social, environmental and heritage protection, and data collection.

The national Customs service is required to play a key role through the development of operational policy, the drafting of appropriate regulations and the application of appropriate controls to ensure implementation of government strategy and policy. In addition, Customs are required to provide a service-focused approach to the control of the movement of goods and people which rewards compliance and targets offenders.

Governmental strategy and policy

At a strategic level, government policies normally require the promotion of economic growth and the funding of social development through attracting investment for the generation of wealth, the judicious application of taxes, and the provision of a secure and healthy environment.

Converting this strategic requirement into action requires policy development in many areas of government e.g. Finance, Trade, Agriculture, Immigration, Foreign Affairs, Tourism, Environment and Health. The development of policy in such broad and diverse areas results in a need for coherent and consistent strategic direction, legislation, regulation and appropriate control.

Role of Customs in the 21st Century

Government policy making is a complex exercise. A strategic risk is that diverse and sometimes conflicting operational requirements emerge. Therefore, it is important that policy makers ensure that national Customs services are engaged at the strategy and policy development stage. Further, that performance is monitored to ensure delivery is meeting government requirements.

The involvement of Customs services in this process ensures that they understand and influence the policy and will be better positioned to implement it. Customs services can also ensure that the internationally agreed standards for Customs performance, such as the proposed WTO facilitation agenda, the Revised Kyoto Convention, and the SAFE Framework of Standards can be fed into policy development. Customs input is also required for the development of proposals and negotiation positions at international and regional fora such as the WTO and UN.

Customs services cannot afford to operate in isolation from other government agencies, the trading community, and the people they serve. In the case of other agencies, Customs needs to ensure that policy application and reform in one area is not negated by conflicting policy and lack of reform in others. Diagram 1 Key strategic management planning indicators in section 3.2 illustrates these connections.

Strategic requirements from Customs

At the beginning of the 21st century there are a number of common strategically important requirements which Customs must meet:

1. **Transparency-** The trade and public require clear, published rules and procedures which are consistently applied to a common standard. These need to be supported by an extensive information service to clarify understanding in advance of movement and an appeals system which can fairly resolve disputes and misunderstandings.
2. **Minimal interference-** Legitimate trade and passenger traffic can reasonably expect minimum interference from Customs. This comes from simplicity of regulation and procedures, the use of advance information, speed of clearance and ease of payment and recovery of monies.
3. **Security-** In addition to the international requirement to protect society from terrorism and organized crime, it is the task of Customs to protect legitimate trade, the environment, the national heritage and provide a visible presence which inspires public confidence.
4. **Partnership-** Customs must be encouraged and supported in the development of effective internal and external relationships which allow other government departments, the trade and public to influence their operations. Furthermore, Customs should be responsive to legitimate demands from economic operators and to be coordinated with the activities of all border management agencies. This will eliminate duplication and minimize bureaucracy.
5. **Professionalism-** Legitimate trade and passenger traffic can also reasonably expect to be dealt with by Customs staff who are experts at their jobs, have a service mentality and a high level of personal and professional integrity.

Developing Customs Capability

An effective, competitive modern Customs service must have in place or needs to develop:

1. **Clear goals-** which translate Government strategy into a strategic plan.
2. **Accurate data-** collection of data on GDP, trade flow, potential and actual revenue yield, threat and response, and other outputs expected from Customs. The analytical ability to interpret this data and set policy which converts the strategic requirements into operational plans providing clear aims, objectives and measurable results across all areas of responsibility. The collection, management and dissemination of this data require the establishment of strategic and tactical intelligence functions within Customs.

3. An effective organizational structure- capable of delivering the required results efficiently and effectively: with resources allocated, delivered and managed to meet the priority needs.
4. A management information system- which provides information on organizational and human resource performance and can be interpreted in such a way that it can inform decisions and ensure continuous improvement.
5. Modern management techniques- In addition, there is a need to develop a more businesslike approach to the management of Customs, something which requires managers with new skills sets and expertise who can understand and apply strategic management, prioritization, delegation, communications, change management, programmes and project management.
6. Modern Information technology and communications- the variety and speed of modern business and travel can no longer be managed on a documentary basis. Computerization is essential to organize and manage the information required to apply effective controls with minimal delay or interference. Technology also presents an opportunity to limit the scope for corrupt actions by officials.
7. Commitment to the need for partnership- with trade, economic operators the public and other government organizations.
8. Regular external audit- independent assessment of strategy, plans, direction and performance.



In conclusion

For many Customs services, the development of these capabilities will be a major challenge. Particularly as the change process will not take place in isolation from the additional challenges of the changing environment, demands from trade and public expectations. They will not succeed without a high level of support and encouragement from government. The return on such an investment may well include increased revenue, an improved investment climate, more efficient trade flows, greater security and stronger economic development.

3.2 Introduction - The concept of Strategic Management

Strategic Management can simply be defined as the process of creating an organizational strategy, based upon a mission and vision, which keeps the organization on course. In the case of Customs, this strategy would normally be based on its Governments priorities and built around national and international obligations.

Outlined below are the key elements of strategic management that need to be addressed to meet the needs of a modern Customs service.

Mission, Vision and Strategy

The mission, vision and strategy of an organization play an important role in the expression of its identity, the position it takes on the issues it faces, and its future direction. The three concepts are closely interconnected, although they each have their own specific character and function. They can be defined as follows:

- The mission is a statement of core values that express what the organization stands for, represent the core identity of the organization, and state what drives the organization: *The mission expresses the organization's identity.*
- A vision provides an image of the desired organization, not as an end state, but as an image to strive for: *The vision expresses where the organization is heading.*
- A strategy provides the overall organizational plan that will turn the organizational vision into reality: *The strategy shows the path that the organization wants to take.*

The mission, vision and strategy of an organization form the foundation for strategic management and the foundation on which further organizational development rests. Consequently, all three must be developed, or at least be clear and under consideration at the start of a (large scale) organizational development process. A modified example of a WCO Members' mission statement is below at Table 1.

CASE STUDY 1: Mission statement of the Customs Service

"Our mission is to excel in the efficient and timely collection of and accounting for revenue, to implement and advise on Governmental trade and fiscal policies, promote trade facilitation, protect the National society and generate accurate and precise statistical data by developing a professional, transparent administration that implements international best practices and obligations."

Our main functions are:

1. Collection of and accounting for revenue

The Customs Service is responsible for collecting Customs and Excise duties and other charges on international trade. Currently, Customs and Excise duties represent the highest Government income, next to oil income. The other charges applicable are:

- 7% Port Development Surcharge Authority
- 2% for National Automotive Council
- 50% Rice Levy for Ministry of Agriculture
- 100% Cigarette Levy
- 5% Sugar Levy
- 1% for Comprehensive Import Supervision Scheme
- 0.5% for National Export Supervision Scheme

2. Implement Government trade and fiscal policies and provide advice on their development.

The Customs Service is the major agency responsible for the implementation and enforcement of Government trade and fiscal policies, as well as international obligations applied on international commerce, including the management of industrial incentives for economic development. Being an implementation agency, the Customs Service is in a privileged position to provide advice, inputs and suggestions towards the development of national trade and fiscal policies.

3. Trade Facilitation

The Customs Service supports economic development and competitiveness, and encourages foreign direct investments through the promotion of trade facilitation.

In achieving this function, it

- implements modern automated systems, such as ASYCUDA;
- streamlines and simplifies Customs procedures for speedy clearance of cargo without compromising national security;
- applies efficient risk management tools and scanner facilities;
- observes international best practices and standards; and
- encourages compliance.

4. Protection of National Society

The Customs is the agency with major responsibility for controlling all cargo and goods entering, exiting or transiting through national territory. In this regard, Customs has a role in protecting National Society and also securing international trade.

In particular, Customs supports the combat of:

- infraction of Intellectual Property Rights;
- illegal commercial activities and illicit goods (e.g. import of fake and sub-standards goods);
- traffic of illicit drugs;
- illegal trade in arms and ammunition;
- importation of pornographic materials;
- Money laundering; and
- Illegal trade in cultural Artifacts and heritage

Additionally, Customs has an important role in securing the international supply chain and implementation of international obligations related to this function.

5. Generation of Accurate and Precise Statistical Data

Customs is the principal agency that, in a timely fashion, collects and provides statistical data on domestic production and international trade to support Government planning

Organisational Structure

The structure of Customs can vary based on the priorities of the government and people it serves. Some organizations have a security focus and structure, some have a trade facilitation focus and structure and some have a revenue collection structure. Regardless of the structure, Customs is often relied upon to capture economic or trade-related data.



Strategic intelligence

This can be defined as the high level information required when informing the organization about its obligations and challenges. It requires a proactive approach to engagement with key stakeholder needs, active analysis of current management information, engagement with international partners and specific research, in order to identify current and future needs.

Through effective analysis, this intelligence should allow the organization to establish trends and patterns and anticipate change. A healthy organization will have a strategic intelligence unit positioned close to the senior management team.

The role of this unit or group is to support Customs strategic decision-making based on 6 key sources.

- **Government**

Customs organizations can come under the responsibility of various Ministries, including the Ministry of Finance or the Ministry of Interior. However, their operational goals are not always set by these ministries. Other elements of government often influence the tasks that need to be undertaken by Customs, including the Ministries of Trade/Commerce, Transport, Standards, Health and Agriculture .

The negotiations at the World Trade Organization on 'the trade facilitation agenda' are perhaps the best illustration of this requirement. Here, Trade Ministry Representatives negotiate Customs procedures and require the advice and guidance of their National Customs service.

Customs organisations who are active in engaging with Ministries are able to ensure they understand Customs requirements. They can advise them on the operational implications of the policies they are designing. To meet this requirement there should be a regular system of meetings or information sharing. This helps Customs understand current requirements and give early warning of potential changes or developments.

• Trade

The Business community is an important partner for Customs. By its nature, business has to be both alert to, and responsive to change. Their information and knowledge is vital to a modern Customs service. It is worthwhile developing a with the business community which establishes mutual trust and promotes partnership in development.

Equally, as modern control methods rely heavily on the management between compliance and facilitation, it is important that Customs use its relationship with business to understand how business works. The control systems which business requires to ensure that it maximizes efficiency and profit can and should be used as a basis for the development of control policy. Understanding these systems can help Customs to fully understand risk and develop audit based controls which in themselves are more efficient and reliable than traditional methods of intervention and checking.

Regular contact with business is essential to modern Customs trade management. Many Customs services have regular trade forums or stakeholder meetings. Further, this contact does not only have to occur through trade representative bodies, direct contact with the private sector can occur from the multinationals to SMEs to owner-operators. The WCO wishes to encourage and support both trends.

• Public

Public opinion often shapes the policies of governments. Here again understanding public opinion will help Customs anticipate and prepare for change. Regular feedback via operational staff and occasional public fora or open days should be used to provide this information.

Customs should also ensure that the public are fully aware of the important role of Customs in protecting the economy and society in general. Effective use of the media and modern communications technologies as well as "open days" and participating in trade and community exhibitions by some Customs services has helped greatly in improving compliance, increasing revenue yield and generating valuable intelligence.

• Region

The requirements of regional economic groupings, largely in the areas of trade management and Customs unions, place additional demands on Customs Services. It is often at the regional level that the longer term development requirements for Customs can be more clearly identified and the opportunities for joint development identified. It is essential that a modern Customs service be aware and engaged at a regional level. This engagement needs to be seen as strategic and is a key task of senior managers.

Apart from the obvious identification of requirements, regional engagement can offer two further advantages.

Firstly, the regional development is often promoted at a joint Ministerial level (Finance and Trade). This provides an opportunity to promote the need for change in Customs at a level which has the authority to ensure it is supported. It also provides a wider opportunity to promote the holistic role of Customs.

Secondly, many of the larger donors are moving to assistance policies which are focused on economic regions rather than country specific. Regional development planning, therefore, is more likely to obtain support funding.

• International

The globalization of world trade and the increased movement of people present a major challenge for Customs. The pace of international development arguably means that there is a constant need to anticipate and adapt control techniques to ensure that individual nations can maintain their security and fiscal stability whilst remaining competitive economically.

International trade management agendas are well promoted internationally by organizations such as the World Bank, IMF and WTO, and these organizations provide considerable advice and assistance in these areas. At the start of the 21st century, however, there is a need to acknowledge that the security agenda promoted by large trading nations will have an impact on the Customs and border management role of ALL nations.

The modern systems being put in place by developed Customs authorities to provide additional security are placing much more emphasis on the controls in the exporting countries as their first line of defense. This trend must be included in any strategic assessment of the role of Customs if the economy of the exporting nation is not to be adversely effected.

It is vital that the Customs service has the ability to access information on the developing international picture. Here, the information provided by the WCO should be used as a basis of trend identification. Other major international issues affecting the role and requirements of Customs are:

- The Trade negotiations at the WTO
- The promotion of integrated border management by the international institutions.
- The trend towards regional economic co-operation zones, leading to Customs unions
- The economic partnership agreements promoted by the European Union
- The SAFE Framework of Standards
- The SECURE Framework
- The technological advances in Customs control.

Only by establishing a system for obtaining and analyzing this information can the strategic management of Customs provide clear direction to the organization and provide informed advice to government.

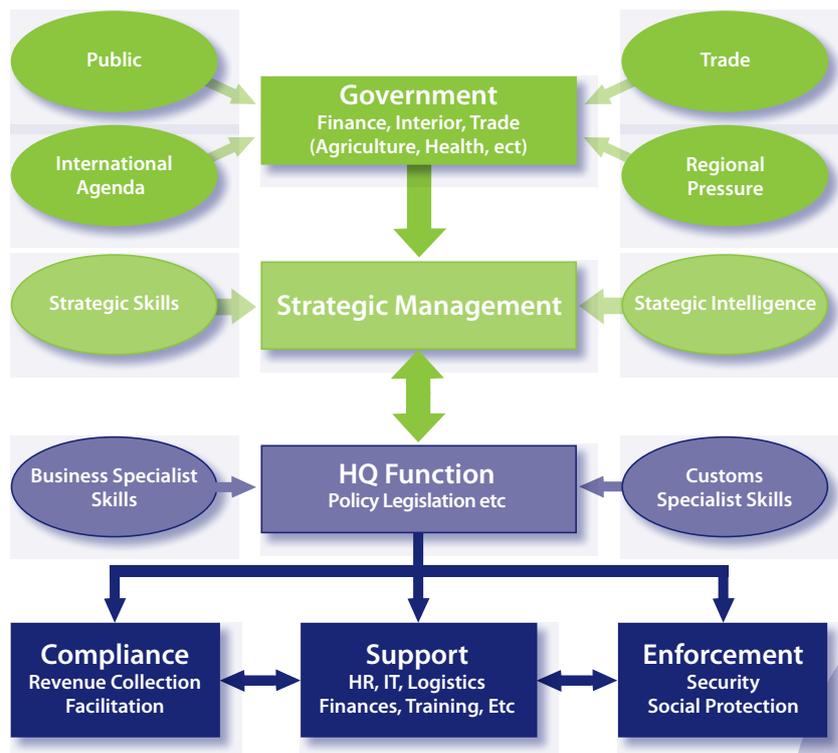
• Staff

Often an underrated and underused source of intelligence, the operational staff and middle management of the Custom service hold valuable information on trends and patterns within the real trading community and traveling public in the country.

There should be regular opportunities for staff to provide this information, or there should be a system of metrics within the management reporting system that allows trends to be identified. Again, consideration should be given to allocating specialist analytical staff to this task.

Image of Customs in the 21st Century

Diagram 1: Key strategic management planning indicators



Techniques for capturing and analyzing information of this type are outlined later in the Compendium

3.3 Implementing Strategic Management for organizational development

Many management scholars plead for an integrated approach in using the concept of Strategic Management.

- > The foundation for such an integrated approach lies in the classic rational approach, which identifies the following distinctive stages:
- > Analysis of the demands of the surroundings and stakeholders;
- > Analysis of the strengths and weaknesses of the internal organization;
- > Mission statement;
- > Vision and strategic goals;
- > Choices for specific (order of) strategic action plans and projects;
- > Implementation;
- > Control, monitoring and altering the course of action plans.

To make this approach work in the daily practice of a Customs administration, some important additional points should be considered.

- **Strategic Management is a permanent process**

Strategic Management is not an 'instrument' or 'action plan' that should be applied at one specific moment in time. Customs administrations must be aware that it should be approached as a permanent process. Although it is useful to redefine the strategy at regular points in time, for instance once a year, the organization should constantly manage the strategy. In daily practice, this means monitoring and adjusting organizational processes and starting up new processes.

- **A learning perspective should be combined with the rational approach**

One of the biggest challenges in strategy building is to involve the various key players within the organization, to reveal their reality perceptions and to use them in the strategy building process. The process of creating a shared language is very important for the ultimate outcome of the strategy.

- **All layers and employees of the organization play an important roll**

Although it is the primary role of executive management of the organization to define and manage the strategy, other layers of the organization play an equally important role in this process. Generally speaking, senior and middle management are responsible for translating the strategy into unit and team goals and plans. Operational management is concerned with the question of how to make that translation in terms of actual working processes. When working at its best, Strategic Management involves continual interaction among the different organizational layers. Middle management plays a particularly important role in this because it is responsible for picking up signals from the shop floor and reporting these to the top, and vice versa. In this manner, Strategic Management is not only a top-down but also a bottom-up process.

- **Up to date management information with IT-support is essential**

Strategic Management can best be applied if updated and correct information is available on the organization's results. One important aspect in this regard is that the information should be user-friendly, not too much or too little and not too complex. In addition to this, the information should be tuned into purpose. In other words, top managers need information that gives them insight into the overall strategic results, whilst middle managers need more detailed information, and so on. In order to make this information available, a modern IT-infrastructure should support such a management information system. In the process of generating and interpreting management information, many other people (controllers, accountants, employees) within the organization play a crucial role.

3.4 Strategic Risk Management

The dynamics of the global and national world of Customs are in a constant state of flux. Risks are unavoidable and continually threaten organizational results. Every Customs administration needs to respond and manage risks.

Risk Management enables a Customs administration to make explicit the choices that underpin its actions. ‘What shall we do and what shall we refrain from doing?’ A transparent risk-oriented methodology shows the underlying reasons for organizational plans of action, why certain actions are chosen and cost implications.

Risk Management should be considered a necessary complement to Strategic Management. A risk management system should be embedded in the organisation’s business systems, including strategy and policy-making processes, to ensure that risk management becomes an intrinsic part of the way business is conducted and integrated within the organization, and thereby to be able to anticipate possible risks and respond to them effectively.

Risk is defined here as ‘an uncertainty of outcome, or negative threat, of actions and events’ Risk Management includes identifying and assessing risks and then responding to them. It is a kind of management whereby:

- > the management is aware of the impact of risks on the realization of organizational objectives;
- > risks are continuously, explicitly and systematically identified and assessed;
- > the acceptance levels of risks are continuously evaluated; and
- > control measures are geared towards the maintenance of risk levels deemed acceptable.

Diagram 2 below represents the planning and control cycle of Risk Management. There is no prescribed starting point. All actions are interrelated.

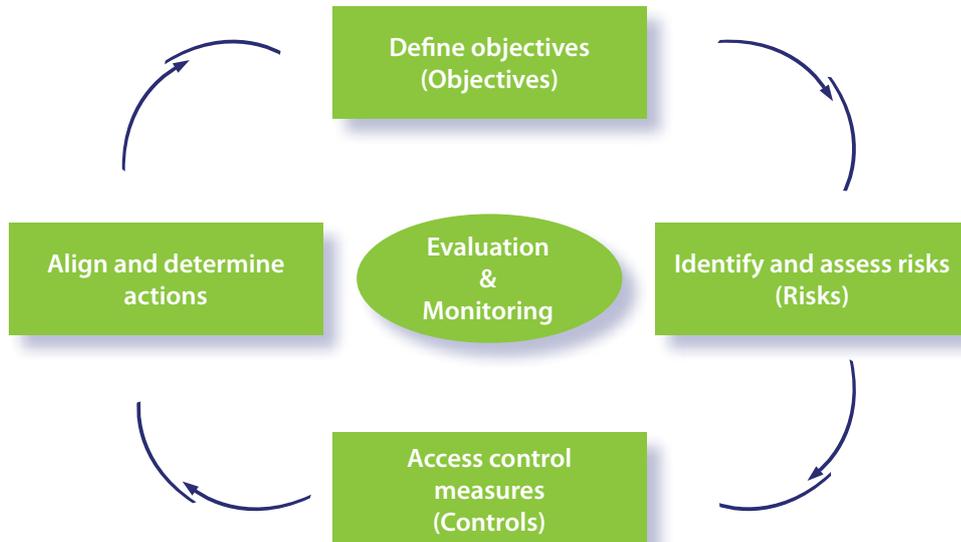


Diagram 2: Risk Management Cycle

Identify and assess risks

The assessment of risks should comprise both the likelihood of something happening, as well as the probable impact if it does actually happen. A categorisation of high / medium / low in respect of each may be sufficient, and should be the minimum level of categorisation – this results in a “3x3” risk matrix, such as the one at Diagram 3 below. A more detailed analytical scale (“5x5”) may be appropriate, and is also commonly used. There is no absolute standard for the scale of risk matrices - the organisation should reach a decision about the level of weighting that it finds most practicable for its circumstances. Colour (“Traffic Lights”) can be used to further clarify the significance of risks.

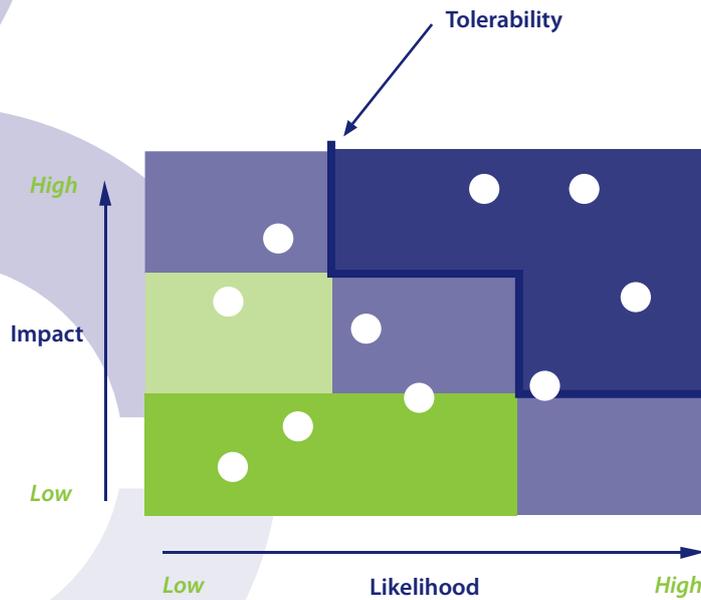


Diagram 3: Risk Assessment Rating

It is not the absolute value of an assessed risk which is important; rather it is whether or not the risk is regarded as tolerable, or how far the exposure is away from tolerability, which is important. Types of strategic risks include those listed in the matrix at Table 2.

Assess control measures

The top management subsequently discusses and formulates control measures for selected risks. Several other parties within the organization, such as a control department, internal auditors and sometimes even a Chief Risk Manager, play an important controlling and advisory role in this process.

Align and determine actions

The alignment of actions to be taken is also carried out by the top management. In this respect key words are: making choices, establishing priorities, establishing links between involved levels and areas within the organization, viewing things from a broader perspective, and clarifying the effects of choices.

Objectives

Risk assessment must be in line with the objectives set out in the strategic plan, the budget and the performance of the Customs administration. In defining the objectives it is possible more than one risk is relevant to more than one of the strategic objectives. This is normal, for example 'lack of adequate funding' and should still be addressed by the mitigating actions decided by the executive management group.

Evaluation and monitoring

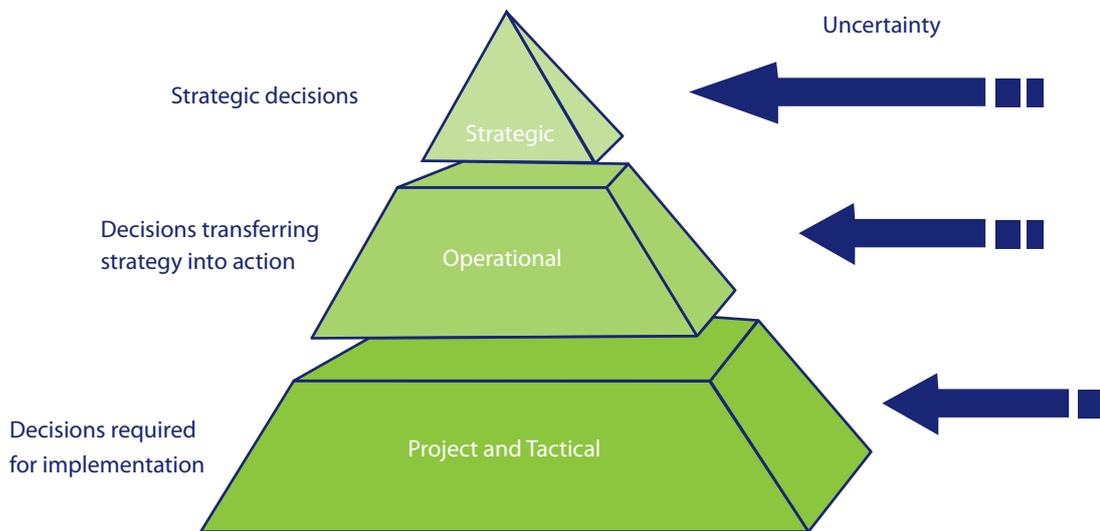
All identified risks are evaluated and monitored throughout the year via implementation reports. The executive management group may make adjustments based on these management reports.

The risk assessment and control measures introduced as a result of this assessment provide the basis for the business operations notification to be issued by the Director of the Customs administration. The risk assessment identifies risks that may have significant political implications or that may negatively influence final conclusions regarding business operations.

Integration of levels of Risk Management

The management of risks at the strategic, operational and tactical levels needs to be integrated so that the levels of activity support each other. In this way the risk management strategy of the organization will be led from the top and will become embedded in the normal working routines and activities of the organization. All staff should be aware of the relevance of risk to the achievement of their objectives.

Hierarchy of dealing with risks



Managers at each level need to be equipped with appropriate skills which will allow them to manage risk effectively and the organization as a whole needs assurance that risk management is being implemented in an appropriate way at each level.

Table 2: Matrix showing several strategic risk categories

Identifying Risks

Category of Risks	ILLUSTRATION / ISSUES TO CONSIDER
<p>1. External (arising from the external environment, not wholly within the organization's control, but where action can be taken to mitigate the risk) <i>(This analysis is based on the "Pestle" model – see the Strategy Survival Guide at www.strategy.gov.uk)</i></p>	
1.1 Political	Change of government, cross cutting policy decisions; machinery of government changes
1.2 Economic	Ability to attract and retain staff Government budget allocation to run Customs programs; effect of global economy on domestic economy
1.3 Socio cultural	Impact from regional or Customs Union agendas; stakeholder expectations change
1.4 Technological	Obsolescence of current systems; cost of producing best technology available, opportunities arising from technological development
1.5 Legal Regulatory	Requirements/laws which impose new obligations on Customs
1.6 Environmental	Infrastructure; equipment; facilities; inter-connectedness
<p>2. Operational (relating to existing operations – both current delivery and building and maintaining capacity and capability)</p>	
2.1 Delivery	
2.2 Service/product failure	Fail to deliver the service to the user within agreed / set terms
2.1.2 Project delivery	Fail to deliver on time / budget / specification
2.2 Capacity and capability	
2.2.1 Resources	Financial (insufficient funding, poor budget management, fraud) HR (staff capacity/ skills/ recruitment and retention) Information (adequacy for decision making; protection of privacy) Physical assets (loss / damage/ theft)
2.2.2 Relationships	Delivery partners (threats to commitment to relationship/ clarity of roles) Customers / Service users (satisfaction with delivery) Accountability
2.2.3 Operations	Overall capacity and capability to deliver
2.2.4 Integrity	Confidence and trust which stakeholders have in the organization
2.3 Risk management performance and capability	
2.3.1 Governance	Regularity and propriety / compliance with relevant requirements / ethical considerations
2.3.2 Planning	Failure to identify threats and opportunities
2.3.3 Resilience	Capacity of systems/ accommodation / IT to withstand adverse impacts and crises (including war and terrorist attack). Disaster recovery / contingency planning
2.3.4 Security	Of physical assets and information; of trade supply chain

3. Change (risks created by decisions to pursue new endeavors beyond current capability)

3.1. Performance targets	New PSA targets challenges the organization's capacity to deliver / ability to equip the organization to deliver
3.2 Change programmes	Programmes for organizational or cultural change threaten current capacity to deliver as well as providing opportunity to enhance capacity
3.3 New projects	Making optimal investment decisions/ prioritizing between projects that are competing for resources
3.4 New policies	Policy decisions create expectations where the organization has uncertainty about delivery

3.5 Strategic Management Tools:

The Balanced Scorecard (BSC)

A new approach to performing Strategic Management was developed in the early 1990's by Robert Kaplan (Harvard Business School) and David Norton. They named this system the *Balanced Scorecard* (BSC). Recognizing some of the weaknesses and vagueness of previous management approaches, the BSC approach provides a clear prescription as to what companies should measure in order to 'balance' strategic results in 4 different areas.

The BSC is a comprehensive Strategic Management system, not merely a measurement system, which enables organizations to clarify their vision and strategy and translate these into actions in the working processes. It provides feedback both on internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the BSC transforms strategic action planning from an academic exercise into the nerve center of an enterprise.

The BSC model is an interactive system that includes a permanent feedback-loop, both with top down movements:

- from strategic goals, which are derived from stakeholder wishes and demands & external and internal developments, into working processes which have effects on stakeholders,

and bottom up movements

- Information on concrete results and effects are used to alter the strategic goals.

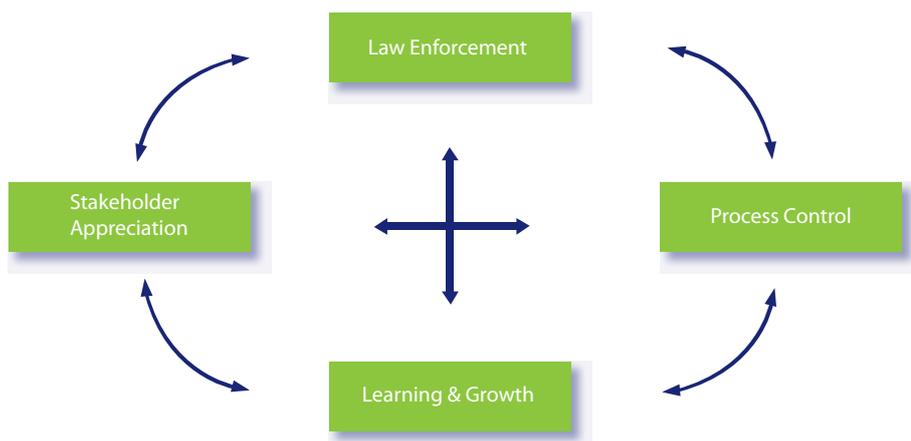
The BSC stimulates organizations to make a shift in thinking and steering, to actually start with the question 'what are the effects that we need to accomplish?' And next, what results do we need to accomplish them? Which products and services do we need for this and what means and manpower do we need?

The balanced scorecard suggests that we view the organization from four strategic perspectives (strategic result areas), develop a management information system, collect data and analyze it relative to the goals set out under each of these perspectives. You can't improve what you can't measure. So metrics must be developed based on the priorities of the strategic plan, and processes are to be designed to collect information relevant to these metrics. The challenge here is to transform the information into a transparent format, which can easily be used by managers for decision making.

Customs administrations could make use of the following strategic result areas

- > The Learning and Growth Perspective
- > The Process Control Perspective
- > The Law Enforcement Perspective
- > The Stakeholder Appreciation Perspective

Diagram 4: Examples of Key Strategic Result Areas



The Learning and Growth Perspective

- Examination, initiation, development and implementation of new technologies, techniques and methods;
- Increasing the management's and employees' effectiveness and professionalism through training & education;
- Increasing the level of know-how within the organization.

The Process Control Perspective

- Improvement of cost control
- Efficiency improvement
- Optimization of data management
- Improvement of quality and (if needed) quantity of products and services

The Stakeholder Appreciation Perspective

- Improvement of the tax revenues process;
- Reduction of non-compliance;
- Effective fight against fraud;
- More uniform policies and implementation
- Protection of society from undesired goods

The Law Enforcement Perspective

- Improvement of the tax revenues process;
- Reduction of non-compliance;
- Effective fight against fraud;
- More uniform policies and implementation
- Protection of society from undesired goods

Practice has proven that full implementation of the BSC model is not an easy or quick job. However, the core ideas of the BSC model are:

- the approach of starting with the question 'which effects do we need to accomplish?'
- the use of strategic result areas that give direction to the organization, and
- the permanent feedback loop between strategy and concrete results and effects, can be applied quite well and are very useful for Customs administrations in the build-up and performance of a Strategic Management system.

The Stakeholder analysis:

A *Stakeholder analysis* can be used to identify the various external and internal parties that have an interest in the organization. More importantly, this analysis makes clear the importance of each stakeholder, its specific interests or demands and its particular relationship and communication channels with the organization.

The main question to be answered in the stakeholder analysis is what results the organization has to deliver in order to be acknowledged by the stakeholder: which results give the organization the right of existence? In the free market, this right is expressed by customers who are willing to pay for the produced goods or services. For a Customs administration (as for all other non-profit organizations) this right is more complicated. It is dependent on politics, governments, national and (indirectly) international legislation and agreements. The force field that is made up by these diverse stakeholders is extremely complex. The stakeholder analysis provides an excellent instrument to identify the relevant stakeholders and clarify the forces that they exert upon (and the results they demand from) the Customs administration

A stakeholder analysis can best be made together with a group of key persons from the Customs administration, from a diverse range of areas and layers within the organization, so that the whole range of possible stakeholders can be identified.

The main features per individual stakeholder to be determined are:

- > Name and position (role)
- > (Level of) Interest of the stakeholder in the Customs administration
- > Level of power

To carry out a Stakeholder analysis the following table can be used

Table 3: Model for stakeholder mapping

		Level of interest	
		Low	High
Power	Low	A Minimal effort	B Keep informed
	High	C Keep satisfied	D Key players

CASE STUDY 2: Implementation of Single Window/One Stop Shop strategy/concept

Due to the development of both concepts in the Customs administration of Country XXX, a lot of questions are raised at the strategic level, e.g.:

Is it really a strategy or only a reflection of good will and intentions? What makes the strategy alive? Is there a roadmap or project plan available with clear objectives and planning?

Are there resources available (budget, the necessary human capacity, organizational structure)? If so, are those resources guaranteed for a longer period of time (so the objectives become realistic and can be achieved)? Who is accountable for the implementation of the IT strategy (the Director General of Customs, the board of Customs, the competent minister)?

Is the IT strategy broader than only Customs and if so, what other governmental agencies does it cover? Perhaps an approach aiming at more than Customs is desirable when you want to work on principles such as the Single Window / One Stop Shop (WCO Framework of Standards). Do not get caught in the trap of "pillar thinking". If and when you are able to make a fresh start using IT, think broad. It helps you to align the processes of the various agencies (efficiency and effectiveness), work on standardization of data and datasets and it can save you a lot of money. Of course, adding other issues and governmental agencies to a Customs IT strategy will increase the level of complexity during the process and software development phases as well as during the implementation of new systems. If that is not managed properly, you can lose a lot of money as well as the acceptance of what you are offering to your organization.

Does the strategy comprise international initiatives, such as those emanating from the WCO? Or is the strategy internally focussed?

Were the stakeholders (especially trade and other governmental agencies) consulted and are they actively involved in the work on the IT strategy?

This is important since trade and other stakeholders also have to invest in their own IT development (and before that they may even have to redesign or re-engineer their business processes).

For the stakeholder mapping, the results of all these questions and recapitulation can be used. In this case the stakeholder mapping will focus on one of the core elements coming forward from the WCO Framework Of Standards: "The Single Window / One Stop Shop". The stakeholder mapping must make clear who the most important players are. Stakeholder mapping identifies stakeholders' expectations and power and helps establish priorities. It involves making judgements on two issues:

- > how keen each stakeholder group is to impress its expectations on the organisation's choice of strategy;
- > whether they have the **means** to do so (do they have the power to force a strategy in a particular or certain direction).

Worksheet 1

Stakeholder analysis

Sheet 1

High level process mapping: "SINGLE WINDOW / ONE STOP SHOP"

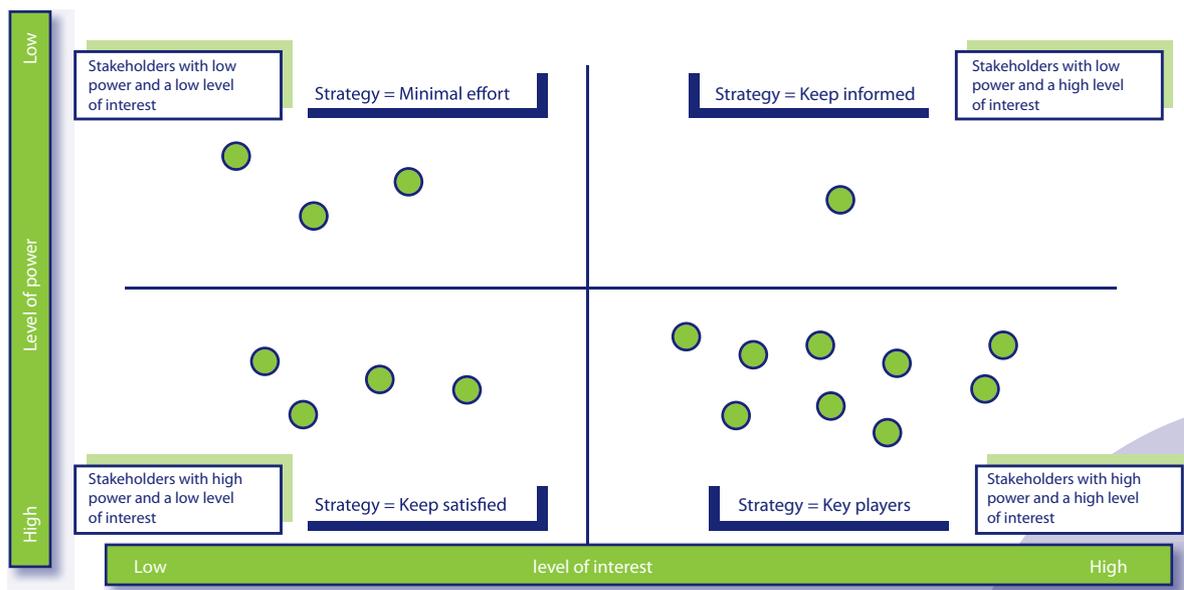
- Describe the main issues to be covered under those concepts:
- Should there be IT involved:
- Describe the key players in the process:
- Describe the legal requirements:
- Describe the policy requirements:

Worksheet 2

Stakeholder analysis

Sheet 2

STAKEHOLDER MAPPING SINGLE WINDOW / ONE STOP SHOP



The SWOT analysis

The SWOT-analysis can be used to create an updated and integral vision and strategy (or sharpen the existing strategy) by manifesting the internal state of the organization as well as influential external developments. It can be used to give a picture of the areas where the organization should direct its energy, in order to provide the requested results, and taking account of the available personnel, means and (future) influential external factors.

The letters of the model stand for:

- Strengths
- Weaknesses
- Opportunities
- Threats

Strengths & weaknesses address the internal organization; while the opportunities & threats refer to the influential external factors.

In making the SWOT analysis, the results of the Stakeholder analysis provided essential input; they are used to give a picture of the Opportunities & Threats from the external world. On the other hand, the results of the WCO Diagnostic Report (result of the first stage of the Columbus Programme) are to be used as essential information for identifying the internal organizational Strengths & Weaknesses. The framework for this is illustrated in Table 4. Examples of the criteria that may be identified during an analysis are presented in the model of a SWOT Analysis at Table 5.

Table 4: SWOT Analysis Template

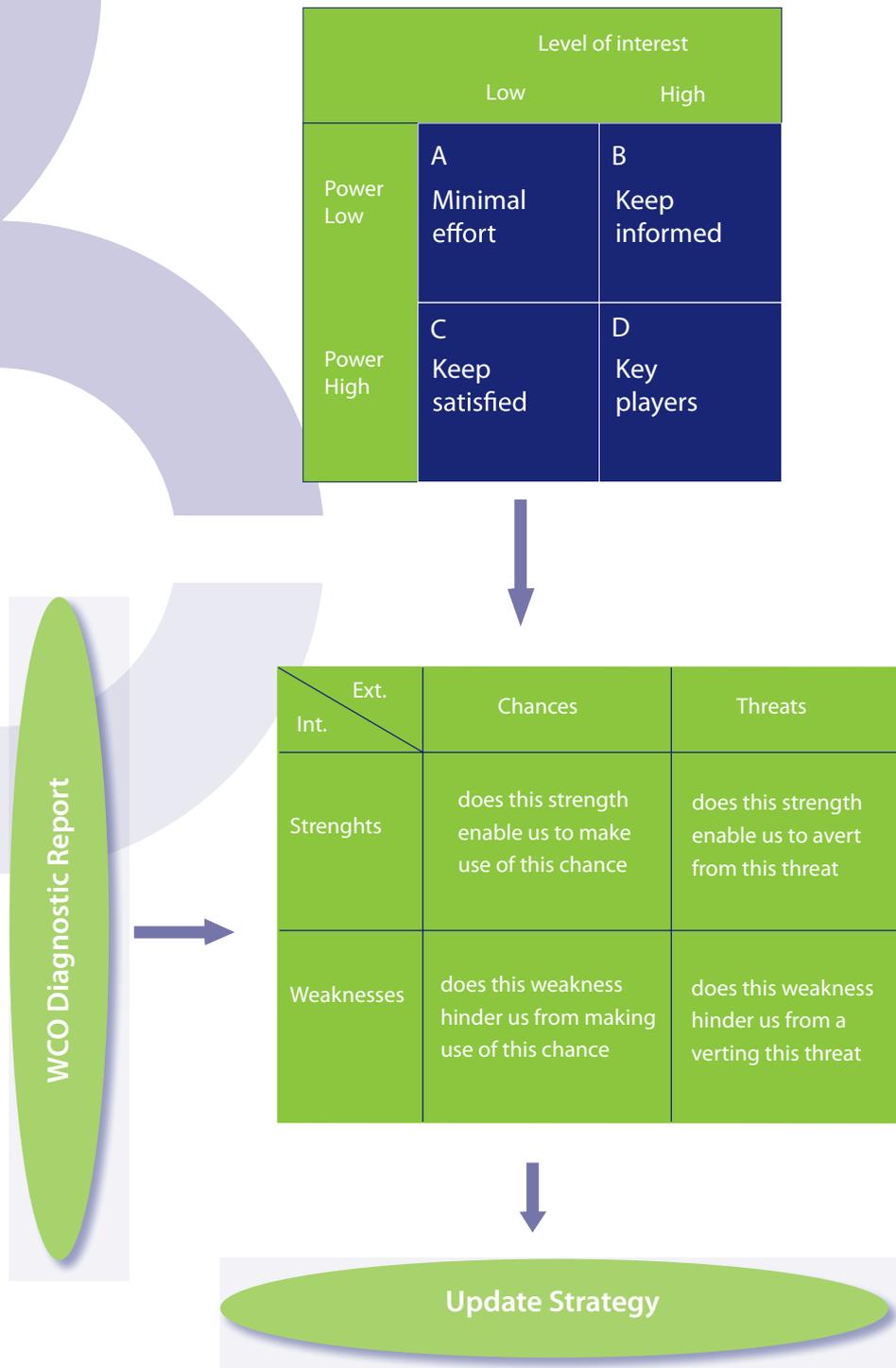
Int \ Ext	Opportunity	Threats
Strengths	does this strength enable us to make use of this chance	does this strength enable us to avert from this threat
Weaknesses	does this weakness hinder us from making use of this chance	does this weakness hinder us from averting this threat

Table 5: Model of SWOT analysis

Strengths	Weaknesses
criteria examples	criteria examples
Advantages of proposition? Capabilities? Competitive advantages? USP's (unique selling points)? Resources, Assets, People? Experience, knowledge, data? Financial reserves, likely returns? Marketing - reach, distribution, awareness? Innovative aspects? Location and geographical? Price, value, quality? Accreditations, qualifications, certifications? Processes, systems, IT, communications? Cultural, attitudinal, behavioural? Management cover, succession? Philosophy and values?	Disadvantages of proposition? Gaps in capabilities? Lack of competitive strength? Reputation, presence and reach? Financials? Own known vulnerabilities? Timescales, deadlines and pressures? Cashflow, start-up cash-drain? Continuity, supply chain robustness? Effects on core activities, distraction? Reliability of data, plan predictability? Morale, commitment, leadership? Accreditations, etc? Processes and systems, etc? Management cover, succession?
Opportunities	Threats
criteria examples	criteria examples
Market developments? Competitors' vulnerabilities? Industry or lifestyle trends? Technology development and innovation? Global influences? New markets, vertical, horizontal? Niche target markets? Geographical, export, import? New USP's? Tactics: eg, surprise, major contracts? Business and product development? Information and research? Partnerships, agencies, distribution? Volumes, production, economies? Seasonal, weather, fashion influences?	Political effects? Legislative effects? Environmental effects? IT developments? Competitor intentions - various? Market demand? New technologies, services, ideas? Vital contracts and partners? Sustaining internal capabilities? Obstacles faced? Insurmountable weaknesses? Loss of key staff? Sustainable financial backing? Economy - home, abroad? Seasonality, weather effects?

Diagram 5 summarises the insights of the Stakeholder- and SWOT-analysis discussed so far. These provide essential input for the first part of the Strategic Management process; which is the creation of a vision and strategy based on present (and near future) external and internal influences. With the information that these models provide, decisions for strategic action planning can be made.

Diagram 5:
Relation WCO Diagnostic Report - Stakeholder Analysis - SWOT and Strategy

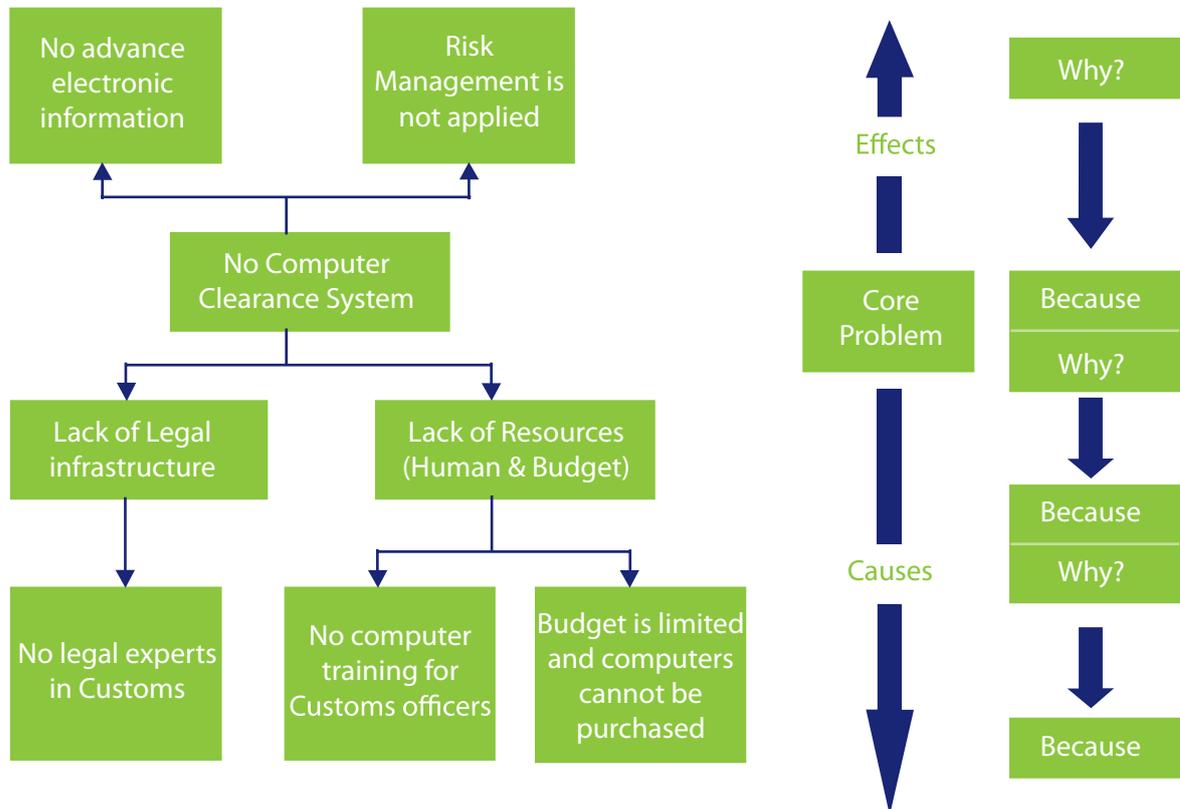


The Cause and Effect model:

The Cause and Effect model is a problem analysis method that graphically displays existing problems as effects with their causes. The analysis lays the problems out in a cause and effect tree with roots and branches showing the relationships between problems. Roots represent causative factors and branches represent consequent effects. The Cause and Effect model can be used to identify the diverse causes and effects for an existing problem or influencing factor. Furthermore, it graphically shows the interrelationships between several causes and effects and can be used in the process of determining the strategic action plans

How to conduct this Analysis?

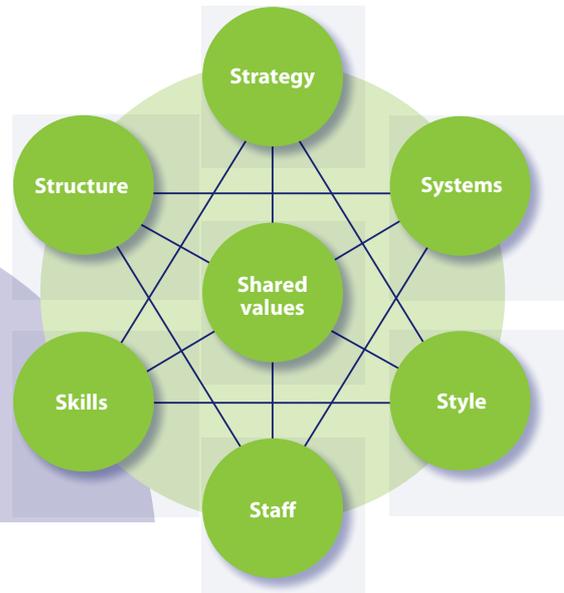
- Identify major problems existing within the SAFE FOS recommendations
- Agree upon a core problem or focal problem.
- Analyze the cause of the core problem.
- Analyze the effects of the core problem.
- Form a diagram showing the cause and effect relationships in the form of a problem tree.



The 7's model

The 7's model can be used to picture the diverse essential parts and areas of the organization, their developmental state and the manner in which they are interconnected. The 7-s model may be used to determine the action plans for further organizational development towards the WCO Framework of Standards.

The fundamental thought behind the model is that an organization consists not only of a structure, but of 7 elements:



These seven elements can be divided into the so called hard and soft elements. The hard elements (structure, strategy and systems) are feasible and easy to identify, while the soft elements are under the surface and hardly feasible. These soft S's, however, can be of great influence on the hard S's.

> The hard S's

Strategy: Actions an organization plans in response to, or in anticipation of, changes in its surroundings

Structure: Basis for specialization and coordination influenced primarily by strategy and by organization size and diversity

Systems: Formal and informal procedures that support the strategy and structure (in practice, systems prove to be more powerful than they are given credit for).

> The soft S's

Style: The culture of the organization, consisting of two components:

>> **Organizational culture:** the dominant values and beliefs, and norms, which develop over time and become relatively stable features of organizational life;

>> **Management style:** more a matter of what managers do, than of what they say. How do they spend their time, to what do they give their attention? And how do they give meaning to (changing) organizational reality?

- Staff:** The human resource management process used to:
 - >> Develop managers;
 - >> Guide or start up socialization processes;
 - >> Recruit new employees;
 - >> Manage career development

- Skills:** The distinctive core competences – what the company does best. And ways of expanding or shifting these core competences.

- Shared** The guiding concepts or fundamental ideas around which an organization is built values: When stated, this is done in a simple, abstract manner. It has a great influence inside the organization.

Effective organizations achieve a good fit between all elements. They are all interconnected: if one changes, it will affect all the others. In change processes, attention is usually drawn to the hard S's, strategy, structure and systems, and less attention is paid to the soft S's.

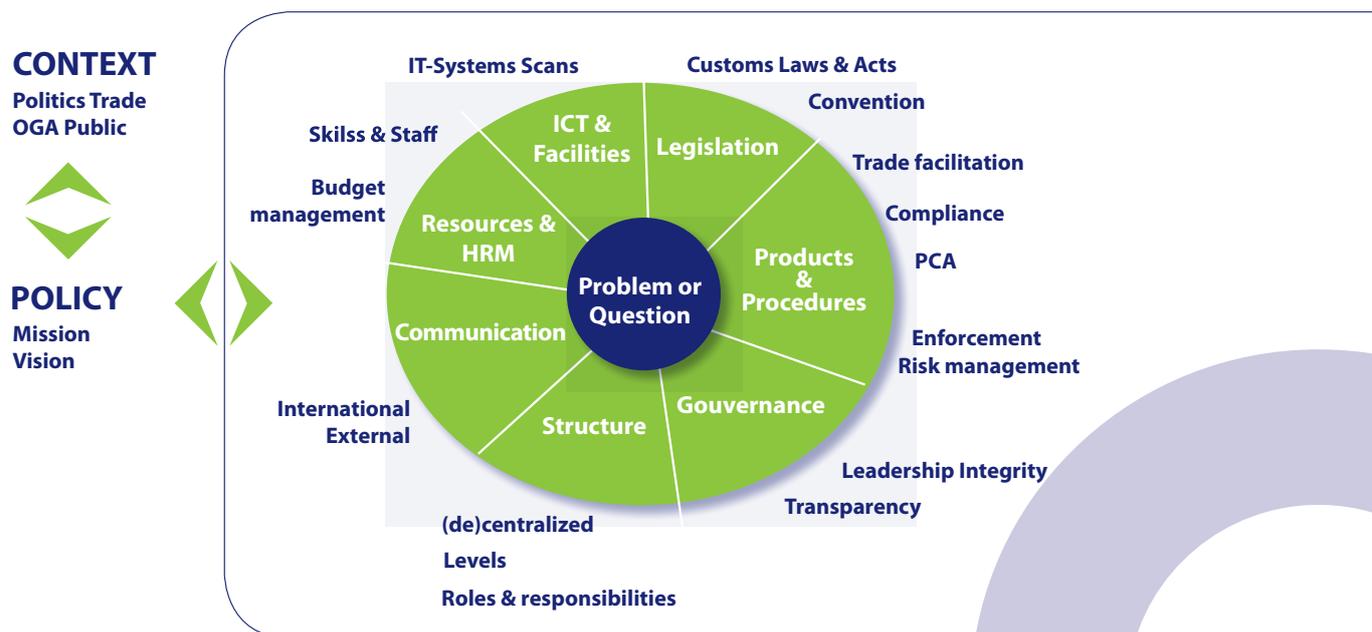
The 7-s model can be a valuable tool for Customs administrations to give direction to the change process: to make essential strategic decisions for which strategic action plans are to be implemented, in what order, and with what effect on the diverse parts of the organization.

Standard usage of the 7-s model means picturing the existing situation. However, in order to function as an accurate tool for Strategic Management, it should be used to determine both the current state and the desired state. This can be done by filling it out twice: once from the perspective of the present situation and then from the perspective of the desired future situation. Furthermore, the necessary action plans, with their interrelations, can then be derived from those two pictures.

The Innovation Frame:

The Innovation Frame (IF) concept could be added instead of, or in addition to, the 7-s model. Like the 7-s model, it may be used to determine the strategic action plans which are to be worked on. The main advantage of the IF is that in the form presented here the different elements are tailored to fit Customs administrations; they are a closer representation of the elements of which a Customs organization consists. Like the 7-s model, it can also be used for other things than picturing the current state of the diverse elements of the organization. The model asks that for each element the status, ambition and diagnosis are determined and described, and consequently that choices for future action plans are made.

[WHEEL DIAGRAM 8] - Innovation Frame



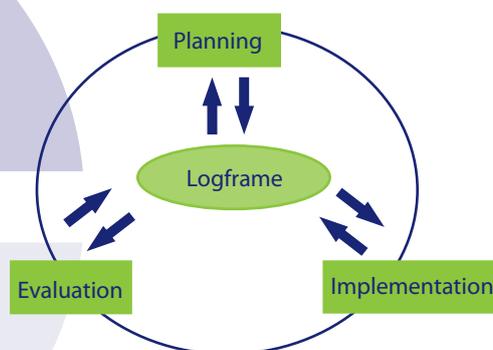
The Logframe (Logical framework)

Logical Framework is known by a variety of names such as Logframe, Project Design Matrix (PDM), project concept paper, or one-page project summary. The Logframe is used as a management tool to keep an overview of a large organizational change process, from the planning stage to the evaluation stage. The Logframe is a structured table that outlines the change process as clearly and simply as possible. Later in this section the term 'project' is used, which in this context should be seen as a 'large organizational change process'.

The Logframe shows;

- > what the project is designed to achieve
- > what it will produce along the way
- > the work that needs to be done
- > the resources needed
- > the indicators that will show if the project is on track
- > the means or the source of that information

[CIRCLE DIAGRAM 9]



Development of the Logframe

The Logframe is a four-by-four matrix used to lay out a project design. Each box contains specific information about the project

- Project Logic: serves to describe the hierarchy of the project's objectives and makes the distinction clear between Overall Goal, project impact (Overall Purpose), project deliverables (Project Outputs) and key activities (Activities);
- Objectively Verifiable Indicators: identifies the performance indicators which define quantity, quality and time for each of the objectives in the first column;
- Means of Measurement: refers to the data sources for Objectively Verifiable Indicators;
- Environment: describes the other conditions on which the project depends for its success (Assumption). These assumptions are at different levels which all have varying degrees of risk;
- Resources: states the internal and external resources needed for implementation of each action plan;
- Costs: determines the estimated costs of the project / action plans
- Preconditions: identifies the prerequisites for starting the project (or carrying out the activities).

It should be possible to discern the logic of the Project based on an objective analysis (tree), which is formulated using an 'if-then' logic (see Diagram 10).

The Program Logframe and the Project Logframe

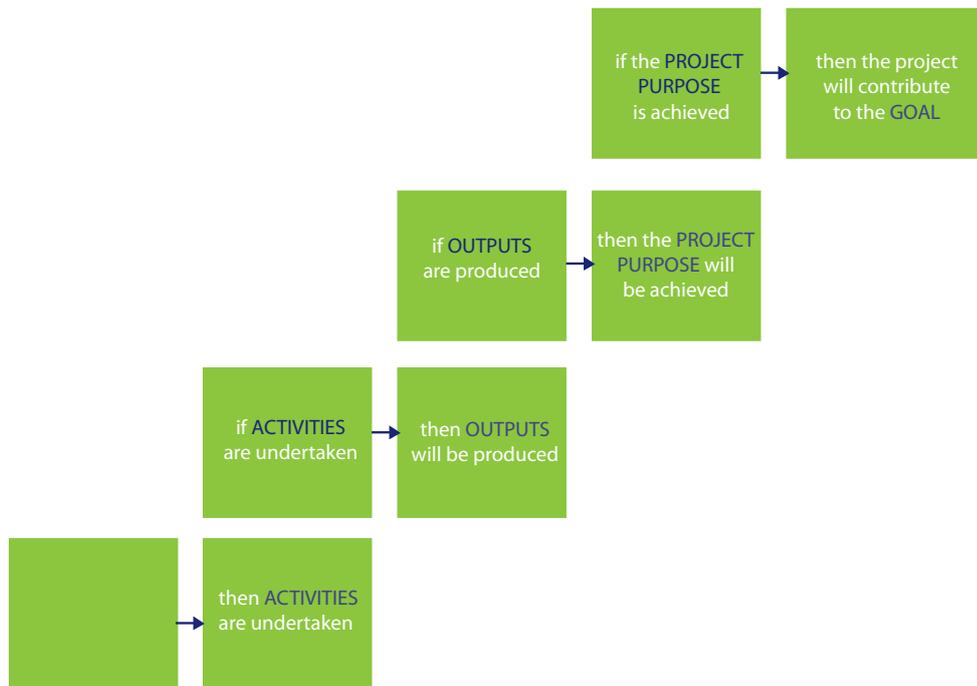
The *Program* Logframe is a management tool developed to steer the overall change process, which often consists of various single action plans (or projects). The Program Logframe is used by the Director General or Deputy Director General to manage overall Customs modernization processes.

The *Project* Logframe, on the other hand, is developed for managing each individual action plan / project. This format is used by project leaders.

It is therefore recommended that the Program and Project Structure should be adopted in order to allow an overview of the hierarchy of objectives, and to enhance capacity to take appropriate further action.

Strategic Management (to make choices for strategic Action Plans)

[SQUARES FLOW-CHART DIAGRAM...10]



CASE STUDY: Development Logframe Country X

The overall strategic programme can be laid out in one simple logframe which gives an at-a-glance overview of what should be expected from the development programme. This document is usually produced to accompany an executive summary of the programme proposal.

Strategic Development Programme

Project Logic	Objectively Measurable Indicators	Means of Measurement	Assumptions	Others Involved
GOAL To protect and develop the Country X economy with regard to trade, security and social protection	Current statistics with regard to international trade and inward investment are maintained or improved. Current statistics on border related crime show an improvement	Comparison of statistics year on year. Survey of trade and public opinion	The goal reflects the strategic policy of the Country X Government. There is no significant change in government policy. Current trends in trade development continue.	Member departments of the government's economic and security departments Economic Operators Public
PURPOSE To develop Customs as an effective revenue collection and border management service	Revenue collection is maintained or improved in line with inflation. Reduction in the availability of controlled/prohibited goods. Public opinion recognises an improvement in performance	Regular monitoring of Revenue statistics Monitoring of price and availability Public opinion Surveys	Tariff policy remains consistent Changes in rates for VAT and Excise remain fundamentally unchanged. Prohibitions and restriction on import/export remain fundamentally unchanged and are a Customs responsibility	Tax Department of Revenue Authority Importers/exporters Brokers, logistics, transporters, banks etc Travelling public International Organisations WCO Members
OUTCOME A Customs Service which complies with the Kyoto convention and SAFE Framework of Standards	Measurement against the Standards of the Kyoto Convention and the SAFE Framework of Standards	Regular monitoring and review by Revenue Authority Programme management WCO and other Intern. Organizations	Recommendations of the WCO Diagnostic Mission are accepted and agreed.	Economic operators

ACTIVITIES	Costs	Resources	Preconditions
Maintain the operations of Customs Maintain current plan Re-establish approvals Develop business intelligence Develop middle management Develop and implement: An effective strategic management policy and process including risk management A supporting structure A development budget and expenditure plan A communications and promotion strategy Review and implement New structure New procedures Supporting legislation New computer systems New Equipment A supporting HR Programme Form practical partnerships with Tax department of revenue authority Other Government Departments Economic operators Regional and International Partnerships	To be estimated during the scoping phase	To be estimated during the scoping phase	Government wide acceptance of the strategic Purpose and outcomes of this programme A realistic development budget is allocated Realistic timescales are set A programme management mechanism is put in place within Customs Basic data by which long term monitoring and evaluation of the programme can be completed

For each of the outcomes and/or activities there will be a further logframe which provides greater detail on each specific project. A series of these logframes would be included in the project documentation and would form the basic planning documentation. An example of how just one of the Outcomes/Activities would look appears below. As you can see, the wording of the Outcome of the strategic logframe has become the goal of the specific project.

Project Logic	Objectively Measurable Indicators	Means of Measurement	Assumptions	Others Involved
GOAL A Customs Service which complies with the Kyoto convention and SAFE Framework of Standards	Measurement against the Standards of the Kyoto Convention and the SAFE Framework of Standards	Regular monitoring and review by the Customs Programme management WCO and other International Organisations	Recommendations of the WCO Diagnostic Mission are accepted and agreed.	Economic operators
PURPOSE To improve the strategic management of Customs	<p>Customs delivers on the contract agreement with the Minister.</p> <p>Customs delivers according to the client charter.</p> <p>Customs is sensitive and responsive to changes in the economic and security environment.</p> <p>Compliance of Customs with the SAFE FoS and other international agreements and standards.</p>	<p>Minister signs off on delivery.</p> <p>Feedback from the Revenue Authority Monitoring Office and Client Surveys.</p> <p>Improvement in compliance with Minister's Minutes</p> <p>Findings of appropriate diagnostic activity and / or independent review.</p>	<p>The Revenue authority is accountable to the Minister of Finance.</p> <p>Commitment and agreement to international standards.</p> <p>Strategic leadership from the Commissioner and the Minister of Finance includes non-financial targets.</p>	<p>Auditor General National Treasury Finance Ministry Etc. Etc.</p>
OUTCOME Fully developed strategic management capability that provides strategic direction, ensures Customs Modernization is effected, and maintains a modern Customs service.	<p>Improved visibility of Customs.</p> <p>Established Customs strategic policy unit.</p> <p>Revise published and implemented Customs management structure.</p> <p>Programme management office (managing IT and non-IT) ensures that all projects and programmes delivered align with the organizational strategy.</p> <p>Final Strategic plan available and published at operational level at the start of the Financial Year.</p> <p>Strategic plan is cascaded down to individual performance measurements.</p> <p>Management information system meets the business need.</p> <p>Sufficient competent managers in position.</p>	<p>Client surveys.</p> <p>Physical inspections against checklists (signage, vehicles, demarcated custom control areas, etc.)</p> <p>Strategic policy unit established.</p> <p>Custom management structure established and published.</p> <p>Project Office established.</p> <p>Final Strategic plan available and published at operational level at the start of the Financial Year.</p> <p>Audit programme to ensure strategic plan is cascaded.</p> <p>Survey of senior / executive management.</p> <p>Output of performance management process.</p>	<p>Budget available to support the strategic plan.</p> <p>Operational office assurance audit includes the strategic plan cascaded down to operational level. Performance management process measures management competence.</p> <p>Strategic planning lifecycle can accommodate publication of the strategic plan at the beginning of financial year.</p>	<p>Senior / Executive Management Human Resources Operations Line Management Staff Clients Ministry of Finance Internal Audit Auditor General ICT Communications</p>

ACTIVITIES	Duration	Costs	Resources	Preconditions
<ul style="list-style-type: none"> •Improved visibility of Customs. Established Customs strategic policy unit. Revised, published and implemented Customs management structure. Programme management office (managing IT and non-IT) ensures that all projects and programmes delivered align with the organisational strategy. Final Strategic plan available and published at operational level at the start of the Financial Year. Strategic plan is cascaded down to individual performance measurements. Management information system meets the business need. Sufficient competent managers in position. Service level agreement with Customs Operations and Legal and Policy Services Review business planning cycle (in terms of budgeting, training, HR and business planning) 				Full development programme has been approved and a project team established

The logframe frame approach provides a very comprehensive basis for programme management and would normally be used for projects which require substantial funding. It should always be used when a major donor is involved as often it is a requirement of their procurement system.

The various strategic management tools in one overview/scheme
Diagram 10: Illustration of connection between each model

