



# The Austerity Paradox

How Municipalities (Can) Innovatively Cope with Fiscal Stress

Tom Overmans

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## **THE AUSTERITY PARADOX**

How Municipalities (Can) Innovatively Cope with Fiscal Stress

## **DE BEZUINIGINGSPARADOX**

Hoe gemeenten vernieuwend (kunnen) omgaan met begrotingsstress  
(met een samenvatting in het Nederlands)

Proefschrift

ter verkrijging van de graad van doctor aan de Universiteit Utrecht op gezag van de rector magnificus, prof.dr. H.R.B.M. Kummeling, ingevolge het besluit van het college voor promoties in het openbaar te verdedigen op vrijdag 22 maart 2019 des ochtends te 10.30 uur.

door

Johannes Franciscus Antonius Overmans

geboren op 20 november 1979

te Sittard

Promotoren: Prof.dr. M. Noordegraaf

Prof.dr. A.J. Meijer





**Preface**

“The best time to plant a tree was twenty years ago. The second best time is now.”

*Chinese proverb*

Exactly ten years ago, in the autumn of 2008, Lehman Brothers had to file for bankruptcy, because the bank was unable to bear the consequences of the excessive risks it had taken in the US subprime mortgage market. The biggest bankruptcy in history is often considered as the inflection point of the global financial crisis (GFC). The mortgage crisis immediately developed into a full-scale international banking crisis. Around the world, substantial bail-outs of financial institutions and other monetary and fiscal policies were developed to prevent a collapse of the financial system. Nevertheless, the banking crisis was followed by a massive economic downturn – known as the Great Recession. The accumulation of financial-economic crises not only had consequences for banks and other financial institutions, but also for the governments of countries that were affected. Because governments were forced to save and support banks, their influence (and responsibilities) grew to levels that were never imagined possible. Furthermore, led by central bankers such as Ben Bernanke and Mario Draghi, many governments increased spending to stimulate demands and pull the economy out of the recession. But the combination of increased government spending and declining tax revenue, however, resulted in unprecedented fiscal deficits and government debt. This squeeze forced governments to take serious budget balancing measures.

Although this so-called ‘fiscal stress’ occurred at all tiers of governments, it was most noticeable and detrimental at the local level. Municipalities are often in direct contact with citizens and provide concrete public services to them. When cuts are made to specific public services or policies, citizens will respond immediately. Municipalities have limited options to distribute cutbacks to other organizations or to increase revenue from local taxation. If something in the environment changes and this causes fiscal deficits, they are forced to take sufficient budget balancing measures. In the first two years, municipalities faced lots of uncertainty regarding the impact of the GFC. In most cities, fiscal stress and austerity management became an issue only after the 2010 elections. But even then, municipal officials doubted whether shortages would occur, and of what size they would be. Only until the national government



started to reduce its grants to the Municipality Fund, until the value of municipal land positions decreased by 50%, and until revenues from local taxes dried up, it became clear: the GFC would change many things, if not everything.

For me, it was an exciting time. I just moved from the young professional program of the Ministry of Finance to a privately-owned consultancy firm. More and more often, we were hired by municipalities to help them clarify the impact of the GFC and find out how they could best deal with this unprecedented episode of fiscal stress. When I got the opportunity to help the city in which I then lived, I became truly fascinated by the topic. This stimulated me to work long days, explore original ideas and prepare unconventional decisions. But I did not only want to help municipalities to move forward, I also wanted to move forward myself. I wanted to reflect at another, deeper level, trying to understand what was happening in the practices that I was working in and on. This was the reason that I visited Mirko Noordegraaf in the summer of 2011, with the idea to start a PhD-research around the issue. After some exploratory talks, we decided to position the study around the theme of innovative austerity management. In practice, but also in the literature, people understood that straight budget cuts and cheese slicing were insufficient to deal with the challenge. Increasingly, local politicians, city managers and financial experts told me that they wanted to deal ‘innovatively’ with the crisis. But what this meant for their austerity practices remained unclear. At best, everyone had their own ideas about what it was and how it could help them to move forward.

This book is the end result. It is about innovative austerity management and its most relevant conceptual, practical and political dimensions. The thesis develops the idea that dealing with fiscal stress is neither a financial problem nor a performance problem, but an institutional problem. Municipalities opt for innovative decisions either because they have to, want to, or ought to. These rules, norms, and beliefs are commonly defined in the literature as institutional patterns if not ‘institutional capacities’. Until now, the institutional capacities that are relevant for municipalities wanting to deal differently with fiscal stress were unclear. The aim was to identify these institutional capacities and to show how municipal officials build and can build them. We assumed that the interventions to strengthen the institutional capacities were related to the generic ‘activities’ municipalities produce: talk, decisions and actions. Consequently, we studied austerity talk, austerity decisions, and austerity acts.

In five different case studies, this book investigates the discursive interventions of local politicians in Birmingham, Cologne, and Rotterdam (chapter 2), the decisional

interventions of local policy elites in Dutch and North-Rhine Westphalian cities (chapters 3 and 4), and the practical interventions of Dutch municipal bureaucrats and city managers (chapters 5 and 6). This book demonstrates that innovative austerity management is difficult. As soon as the size and predictability of the available resources decreases, municipalities predominantly opt for financial-technical solutions, despite innovative ambitions. The ‘absorption power’ of fiscal stress hinders the development of innovative ideas. This does not mean, however, that innovative austerity management is impossible. This study provides numerous, often very practical, examples of how municipal officials have created room for innovation, for instance by establishing a new narrative for austerity, by developing decisions that compel innovation, or by strengthening the mindset of coworkers. The various case studies in this book are composed as read-alone publications. If you are interested in austerity rhetoric and discourse analyses, read chapter 2. If you are interested decision-making and different strategies to deal with fiscal stress, read the chapters 3 and 4. If you are interested in the practical behavior of bureaucrats and city managers that are practicing innovation amidst a crisis, read the chapters 5 and 6. If you think that this is all very interesting, read the whole book.

I look back at seven years of research, with great pleasure. It was an enjoyable and enriching time, which was not only dominated by this research. Apart from raising two young children, being sort of a nice husband, going to ‘the island’ for holidays, and coordinating the construction of our new house, I spent most of my time participating in consulting projects in municipalities across the Netherlands and – from 2014 onwards, when I started working at the Utrecht University School of Governance – with teaching and commissioned academic research. These ‘side activities’ sometimes made it difficult, especially when articles had to be written and revised for publication in journals, or when the deadline of the book approached. But thanks to the help of numerous people, I have always found the time and perseverance to complete this thesis.

Without doubt, my greatest ‘thank you’ goes to my supervisors Mirko Noordegraaf and Albert Meijer, without whom this book would not have been possible. Mirko, first and foremost I want to thank you for teaming up with me in 2011. I know how often you get approached by practitioners to supervise them in an external PhD research, and how often you hold this off because you don’t have the confidence that people will make it to the end. I am pleased and grateful that you decided to start this project with me. Over the years, we have had many conversations, whether or not accompanied by a glass of good wine. The conversations were often

enlightening, and sometimes confusing, but they always encouraged me to continue. It is fascinating to see that the (talk, decisions, acts) framework that you had in mind from the beginning now actually forms the skeleton of my book. Next time, however, I will write a more thorough research proposal up forehand. Mirko, I want to thank you for your invaluable help and positivity during this research. I owe you big time.

Albert, it must not have been easy for you to jump on the bandwagon. Yet I was very pleased that you became my second supervisor when I moved to the university in 2014. One of your first questions was when my research had to be finished; a question that was never actually asked until then. I appreciate your hands-on mentality and thorough readings of my chapters. You always found the weaknesses in my papers; but also helped me to improve my work afterwards. I am very grateful to you.

I would also like to offer particular thanks to the practitioners that were involved in this study. My first gratitude goes the city managers – and their coworkers – that participated in the Network for Innovative Austerity Management (*Netwerk Vernieuwend Bezuinigen*). Between 2012 and 2014, the cities of Amersfoort, Amsterdam, Arnhem, Ede, Eindhoven, Emmen, Enschede, Hilversum, Leeuwarden, Nijmegen, Utrecht, Zaanstad, and Zwolle participated in a content-specific learning network. Basically, the idea of the network was to develop and distribute knowledge about innovative responses to fiscal stress, but also about increasing the abilities of municipalities to adapt to future crises. The network offered a great way to collect empirical data, and served as a vehicle to share findings and temporary conclusions with practitioners. Special thanks go to Maarten Schurink, at that moment city manager of Utrecht. I really appreciate that you helped me to get this network off the ground. Another practitioner that deserves some nice words is dr. Klaus-Peter Timm-Arnold. It is very interesting that a Dutch guy needed a British newspaper to learn that a German practitioner was involved in similar research and consulting practices. I enjoyed working with you and I am happy that our comparative research project is part of this book.

I also want to thank my former colleagues at Hiemstra & De Vries, particularly Jaring and Joscha. It is impressive that you have built up such a wonderful company, in relatively short time, despite turbulent economic conditions. It is admirable that you allowed me, even motivated, to start this research. Furthermore, Sebastiaan. Together we have helped many cities to bounce forward from fiscal stress. I enjoyed working with you and appreciate your help with translating the findings from my research to make them available and useful for practitioners. Next, my colleagues at

the School of Governance (USG). I mention a few, with the risk of unjustly missing others. First of all, Scott. You know like no other what it is like to work on PhD-research while working as a consultant. I am glad that we have met and that we are now working together in the academic world. I appreciate that you want to help me during the defense as my ‘paranimf’. Furthermore, Jasmijn, Corine and Martijn. Thanks for the good times and laughter in the ‘caves’ of the university. I am the second one from ‘-1,14’ to finish the PhD, and hope that Corine and Martijn will follow. Judith, Paul and Lars, thanks for indulging me as non-full-professor in your room. I like sharing a room with you; I learn a lot from you. Finally, Esther and the other great colleagues at the secretariat. Thanks for cheering up my days at the office.

Special thanks goes to the professors Judith van Erp (Utrecht University), Sandra Groeneveld (Leiden University), Giuseppe Grossi (Kristianstad University/Nord University), Paul ‘t Hart (Utrecht University), and Ileana Steccolini (Newcastle University London) for participating in the assessment committee of this dissertation. I would also like to thank the Dutch Ministry of the Interior and Kingdom Affairs for providing me funding to finalize the study, deliver the book, and organize the defense.

My last words of thanks go to my closest friends and family. Dennis, Linda, Michiel, Paul, Pieter, Ralph, Victor. I apologize that I had little time for you in the last few years and that I was constantly bothering you with the worries and pleasures of my research. I will throw a big party to make things up. Pieter, it is great that you want to support me as my other ‘paranimf’. I wanted you to experience a defense firsthand, because I think that you would love doing a PhD-research as much as I did. Mom and dad, I know that it is sometimes difficult for you to understand what I am exactly doing, but I am thankful that you have always supported me. Enorm bedankt voor alles wat jullie voor mij hebben gedaan en nog steeds doen.

Mats and Suze, I hope that this book will inspire you to pursue your dreams, whatever they be. Stay creative and never give up. Finally, Annemieke. I think you have experienced most of the inconveniences of this research. I am grateful that you have given me the room to finish ‘the book’ in the rush hour of our lives. I know that my physical and mental absence sometimes asked a lot from you. Without you, this work would not have been possible. I love you.

The only thing left is to explain the quotation at the beginning of this preface. An old Chinese proverb says *‘The best time to plant a tree was twenty years ago. The second best time is now’*. Basically it means that if you want prosperity in the future,

the best time to act is now. But for me there is another meaning in the saying – for me, it means that it is never too late to pursue personal growth. Twenty years ago, I was stuck. I did not fit into the educational system, was expelled from school, and had to start at the lowest level of education. At that place and moment in time I planted a new tree. Obtaining my master's degree in 2006 was a true victory. But in the back of my mind I knew that the tree could grow higher. I knew that it was still unfinished. I hope that the PhD will take away my last worries. Anyway, I am proud that the book is here. I hope you enjoy reading it.

Utrecht, autumn 2018

Tom Overmans

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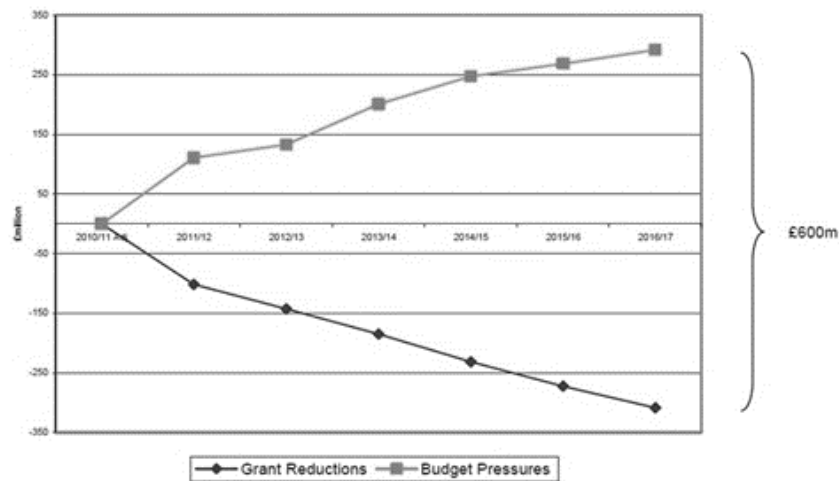


## 1. General introduction and overview

### 1.1 Municipalities dealing with fiscal stress

What started in the United States as a banking crisis in 2008 and became an international economic crisis in 2009, transformed into a global financial crisis (GFC) in 2010. Initially, governments were forced to save and support banks, and take economic recovery measures. Later, when fiscal deficits and public debts became unsustainable, they took numerous budget balancing measures (Kickert, 2012). Although fiscal stress occurred at all tiers of government, it was most noticeable and detrimental at the local level (Miller & Hokenstad, 2014). The effect of fiscal stress on a municipality can best be illustrated with an example.

**Figure 1.1 The ‘Jaws of Doom’**



In 2012 an ominous graph is doing the rounds in municipalities in the UK. It is a simple chart that shows a Grant Reductions line dropping sharply to the right bottom and a Budget Pressures line rising to the top right. “It could be a child’s depiction of a shark, or a crocodile, about to bite its prey. Lunch, in this case, appears to be local government itself.” (The Guardian, 18 December 2012). The graph that travelled under the name ‘Jaws of Doom’ was created by Birmingham City Council to clarify the impact of the GFC on the city’s finances.

The combination of central government cuts and rising costs, forced Birmingham to make £600m of cumulative savings, a cut of nearly half of the controllable

spending. Already from the beginning it was clear that such a deficit could not be solved with ‘salami-sliced’ efficiencies. The dire circumstances compelled the city to make severe cutbacks reducing services to priority areas such as adult social care and youth services. Numerous protestors rallied against the cuts. But the fiscal crisis affected not only the residents. The municipality was required to make serious cuts to the administration, reducing staff numbers from around 24,500 in 2010 to 8,000 in 2020.

Although Birmingham might represent an extreme case, the example clearly illustrates that the context in which municipalities have been operating has seriously changed in recent years. Before 2008, municipalities functioned in a fairly stable climate with moderate continuous growth in revenue which allowed them to allocate annual increments to existing programs and departments (cf. Wildavsky, 1964, 1997). Revenue windfalls were used for investments or projects that serve political interest. The pattern of budgeting, however, changed seriously in the wake of the GFC. Rather than allocating extra money on top of a fixed base, local policy elites agreed on allocating and realizing cutbacks. Dutch municipalities – on which this book primarily focuses – for instance, dealt with an average deficit of €250 per capita (Allers, 2009), a number that outweighed any previous disorders.

In the Netherlands, the fiscal squeeze was typically caused by the reduction of transfers from central government, the decentralization of national tasks without corresponding budgets, and the declined value of municipal assets (Overmans, 2017; Korsten, Abma & Van der Meer, 2018). Because Dutch municipalities, and many of their counterparts in other countries, had (and have) limited possibilities to increase revenue with higher taxes, the deficit was restored primarily with expenditure cuts. This condition, along with the magnitude of the GFC, forced nearly all municipalities to consider the decommissioning of policy budgets, as well as serious cuts to the administration.

When addressing fiscal stress and its impact on municipalities, the emphasis was and is mainly on the *financial* aspects of the phenomenon. As in the example, practical discourses are informed by a multitude of numbers, graphs, and financial forecasts. Local policy elites question and ‘attack’ each other about the correctness and validity of the statistics, the benefits of tax increase or cost reduction for restoring the fiscal equilibrium, or the constraints of financial arrangements. Informed by the academic literature, however, we have come to understand that dealing with fiscal stress is more than a straightforward financial endeavor, more than ‘*doing less*’. It is increasingly accepted that austerity management is not only about adjusting the allocation of

resources, but primarily about what people find important (see e.g. Raudla, Savi & Randma-Liiv, 2013; Van de Walle & Jilke, 2012). It is about the preferences of the organization but also of society that expects results (cf. Wildavsky, 1997). Instead of treating austerity management as an isolated financial operation, therefore, we might see it as a more comprehensive matter of forming ‘sustainably performing organizations’ (cf. Bozeman, 2010; Pandey, 2010).

## 1.2 Fiscal stress as a performance problem

When dealing with fiscal stress is considered as such a *performance* problem rather than a *financial* problem, alternative topics attract academic and practical attention. Instead of focusing on financial responses and fiscal engineering aimed at rebalancing the budget, emphasis is put on a myriad of solutions to increase organizational performance, including organizational change (e.g. Schmidt, Groeneveld & Van de Walle, 2017; Kelman, 2006), service reviews (e.g. Dunsire & Hood, 1989), and performance management (e.g. Schick, 1988). This emphasis is heavily influenced by *New Public Management* (NPM) which privileges *results*, also for clients and society, in relation to *resources*.

Since the 1980s, NPM (e.g. Hood 1991; Hood & Jackson, 1991) – and its American counterpart *managerialism* (e.g. Osborne & Gaebler, 1992) have seriously changed thinking about proper ways to run government. Instead of acting fairly, reliably and predictably, public organizations had to become more focused and efficient. One of the central ideas of NPM is that the allocation of resources is related to explicit and measurable objectives, i.e. that inputs are linked to measurable outputs and outcomes, via systematic throughputs (activities) (e.g. Noordegraaf, 2015). In this way objectives cannot only be reached: they can be achieved efficiently. Public organizations can ‘*do more with less*’. In addition to reducing or cutting inputs and decreasing the influx of public money into policies, programs and services, public money is spent as parsimoniously as possible.

This explains the ‘3Es’ of managerialized organizational performance: *economy* (reducing, lowering and/or cutting budgets), *efficiency* (reducing the budget in relation to outputs), and *effectiveness* (accomplishing goals and achieving outputs). Although most NPM scholars focus on outputs, results, effectiveness, linked to performance indicators, quality systems and client satisfaction, the 3Es are highly important in work about fiscal stress and austerity management (e.g. Schick, 1988; Pollitt, 2010; Robbins & Lapsley, 2014). When focusing on *economy*, scholars (e.g. Dunsire &

Hood, 1989) address the need to minimize inputs. Especially when there are no (or not many) results related to specific policies, programs and/or services, no public money needs to be spent. In addition, scholars focus on the need to increase *efficiency*. The associated savings could then be used for the restoration of the fiscal deficit (cf. Pollitt 2010; Cepiku & Savignon, 2012). Furthermore, attention is given to *cost-effectiveness*. Retrieving budgets for closing the fiscal gap, for instance, is possible by manipulating organizational goals or by reducing the quality of services, in relation to the resources invoked (e.g. Pollitt, 2012; Raudla, Savi & Randma-Liiv, 2013). Ideally, *value for money* is realized, with a stress upon monetary value.

Such a performance perspective on fiscal stress is attractive, but just like more general problems and even perverse effects attached to NPM (see e.g. Diefenbach, 2009; De Bruijn, 2003) it shows multiple weaknesses. This boils down to a few basic shortcomings when performance actions are related to public sector and societal contexts. First, NPM (including its financial performance orientation) focuses on the *short run*. Longer-term consequences are neglected, whilst much governments action cannot be realized suddenly, smoothly and swiftly (e.g., Dunleavy & Hood; 1994, Pollitt, 2005). Second, (financial) NPM focuses on *tangible and measurable* sides of public sector action, whilst much of this action is ambiguous (e.g., Noordegraaf & Abma, 2003). Although monetary ‘value for money’ might be realized, ‘real’ value – societal value, public value – might be hidden from sight. Third, NPM mainly represents *first order responses*: responses that are aimed at solving immediate problems at hand. Responding to less obvious, less predictable and less stable problems is much more difficult. NPM suggests that managers and organizations can be ‘in control’ (cf. Noordegraaf, 2015), whereas much organizational action is flowing from and/or subjected to environmental influences and changes. Fiscal stress and financial crises, for instance, are hard to predict, let alone controlled, steered and solved.

Given these short-sighted and single-loop features of a financial performance perspective, we need an alternative perspective on dealing with fiscal stress. This must be one that (1) is more sensitive to longer term processes, (2) incorporates less tangible aspects of organizational functioning, and (3) focuses on strengthening an organization’s ability to adapt to exogenous demands. I use an *institutional* perspective to accommodate these requirements.

### 1.3 Introducing an alternative (institutional) perspective on fiscal stress

The remainder of this book starts from the idea that dealing with fiscal stress is neither a *financial* problem nor a *performance* problem, but an *institutional* problem. It posits that austerity management is not just about allocating budgets or adjusting performance, but more particularly about aligning institutional action with environmental conditions, constraints and discontinuities. It means that municipalities opt for alternative solutions that move beyond the idea of *doing more with less*. Instead of focusing on fiscal gapmanship and/or performance maximization, they move towards building and organizing abilities to cope with fiscal stress and financial crises – new *knowledge, routines, cultures* and *mentalities*, as I will argue later on.

An institutional perspective suggests that when municipalities are responding to environmental discontinuities, the behavior of individuals is guided by shared definitions of appropriate action. Scott (2008) states that this institutional setting is shaped by ‘rules, norms and beliefs’, acting as institutional constraints that guide social and organizational behavior. He mentions that the regulative pillar (*rules*) emphasizes formal and informal rule-setting, monitoring and sanctioning. The normative pillar (*norms*) introduces a prescriptive, evaluative and obligatory dimension into social life. It explains the distinction between appropriate behavior and rational behavior (March and Olsen, 1989). Scott’s cognitive pillar (*beliefs*) puts emphasis on the centrality of symbolic systems that guide behavior. When applied to the context of this book, institutional theory states that municipalities adapt to environmental changes, either because they have to (rules), ought to (norms), or want to (beliefs). The character and coherence of the dominant rules, norms and beliefs, therefore, have a major impact on how municipal officials respond to new fiscal realities.

Emphasizing the institutional aspects of austerity management is important because environmental change is the prime constant in the organizational life of today’s governments (Sarros *et al.*, 2008). If municipalities want to flourish in such volatile climates, they have to be able to adapt their actions to ever-changing circumstances, which means adapting and/or overcoming institutional constraints. This book questions whether the ability to cope with constantly changing realities relates to the extent to which the organization’s institutions stimulate different, original and innovative actions. The key challenge of what this book calls ‘*innovative austerity management*’ is neither restoring the current deficit with safe technical measures, nor increasing economic performance to restore the current mismatch

between the organization and its environment. It is about finding new ways to lessen institutional constraints, so that crises are dealt with more creatively and that municipalities can learn on a deeper level. Adapting institutional patterns calls for innovative action, which might – in the end – contribute to ‘institutional capacities’ of municipalities, that is: the capacities that are needed to deal more intelligently with ever-changing contexts.

#### 1.4 Research aims

For municipalities to (innovatively) cope with environmental discontinuities such as (fiscal) crises, they have to work on their institutional capacities aimed at welcoming uncertainties as well as unpredictable and changing contexts. In the literature, however, it often remains unclear what these institutional capacities are. More generally, capacity refers to the ability of an organization to manage its physical, human, informational, and financial resources (Honadle, 1981). ‘High capacity-organizations’ are in the possession of strong strategic, financial, and HR management, which enables them to be ‘adaptable, efficient and effective’ (cf. Burgess, 1975). ‘Low-capacity organizations’, on the other hand, lack the ability for self-improvement and have difficulties with developing and implementing solutions to new realities (Andrews & Boyne, 2010). But up until now, dominant conceptualizations are lacking in the literature.

The first aim of this book, therefore, is to identify the *institutional capacities* of innovative austerity management. Although we do not yet know what these capacities exactly are – we regard this as ‘adapting to changing (financial) contexts’ – we have come to understand that adaptation can be a matter of both exploitation and exploration (Gupta, Smith & Shalley, 2006; see also March, 1991; March & Weil, 2005). *Exploitation* focuses on the application of existing knowledge. It relies on resources, knowledge, and skills that already exist in the organization. Exploitation generates trustworthy outcomes at the risk of overlooking promising alternatives. *Exploration*, on the other hand, focuses on original ideas and finding new knowledge. It is receptive to innovations but runs the risk of not looking at them carefully enough to gain the full benefits of mastering them (Limnios et al., 2014). We expect that municipalities that want to overcome crises in ways that are innovative would benefit especially from actions and especially concrete *interventions* that facilitate the *exploration* of new knowledge, routines, cultures and mentalities.

The second aim of this study is to discover these *interventions*, by way of which municipalities can develop such actions and build such institutional capacities. This book assumes that the interventions to build the ‘institutional capacities for innovative austerity management’ are linked to the three types of ‘actions’ that public organizations produce: (1) discursive actions, i.e. talk, (2) decisional actions, i.e. decisions, and (3) behavioral actions, i.e. acts (Brunsson, 2002). The first type of action is *talk*. Municipalities set great store by how they address particular issues. Talk, orally or in writing, is not only produced for the municipality’s environment, but also for internal purposes. This suggests that municipalities can activate institutional capacities with *discursive interventions*. The chances of exploration, for instance, are likely to increase when talk ensures novelty and creativity. The second type of action is *decisions*. Brunsson argues that decisions are crucial because they are the coupling mechanism between the leaders and the led and serve as the foundation for action. If exploration is to be effective, municipalities have to develop concise decisions. Although I recognize the difficulties of developing decisions that enable exploration – policy elites tend to exploit safe solutions with short term impacts (Schick, 1988; see also Raudla, Savi and Randma-Liiv, 2015) – I assume that municipalities can activate institutional capacities with *decisional interventions*. The third type of action is *acts*, which refers to the enactment of ideas, decisions, policies; resulting in physical outputs, products and/or services. The indication that the exploration of new ideas requires other actions than the exploitation of traditional solutions, suggests that municipalities can also activate institutional capacities by using *practical interventions*. The essence of the interventions is summarized in table 1.1.

**Table 1.1 Interventions for building institutional capacities to cope with fiscal stress**

Type	Definition
Discursive interventions (talk)	Activities that contribute to the introduction of new ideas and unexplored concepts in the local discourse. These activities facilitate the creation a new narrative which sets the agenda and opens up routes towards innovation.
Decisional interventions (decisions)	Activities that contribute to the development of concise decisions that enable the exploration of innovative solutions to deal with environmental discontinuities.
Practical interventions (acts)	Activities that contribute to the implementation of innovative solutions.



## 1.5 Research questions

This book is about studying interventions (as actions) aimed at building institutional capacities to deal with fiscal crises in innovative ways. It is about actions that adapt institutional rules, norms and beliefs, which act as constraints. The objective is twofold. First, the study aims to identify the institutional capacities that facilitate innovative austerity management which go beyond financial and performance approaches. Second, the study intends to discover the interventions by which municipalities can build such capacities. In this way I try to investigate how municipalities deal and can deal with fiscal stress and financial challenges in *non-financial* ways. The research is built around the following main research question, which will be answered in the final chapter:

***How do municipalities build institutional capacities to innovatively cope with fiscal stress?***

This main research question breaks down into three sub questions:

*1. How do municipalities build institutional capacities to innovatively cope with fiscal stress by way of discursive interventions?*

The first sub question facilitates the development of a framework that specifies diverging austerity frames, each of which has a different conception of the crisis. This framework enables the empirical investigation of the discursive interventions and reveals the extent to which talk can set the agenda and open up routes towards innovation, in relation to fiscal/financial challenges. Because addressing a problem and setting the agenda are usually considered as tasks of the political leadership (Brunsson, 2002) I focus on the discursive interventions of *local politicians*.

*2. How do municipalities build institutional capacities to innovatively cope with fiscal stress by way of decisional interventions?*

The second sub question facilitates the development of a framework that specifies different solutions to fiscal stress, including the more innovative alternatives. This framework enables the empirical investigation of the decisional interventions and the extent to which decisions facilitate the exploration of innovative ideas. Because austerity decisions are normally included in the budgetary process, I focus on the decisional interventions of local policy elites (Moyer & Song, 2016). Policy elites are referred to as those ‘actors who hold political resources to be utilized to exert potential influence in various stages of the policy process, including agenda setting, policy

analysis, policy formulation, policy implementation and policy feedback’, including *mayors, council members, aldermen, and city managers*.

3. *How do municipalities build institutional capacities to innovatively cope with fiscal stress by way of practical interventions?*

The third sub question facilitates the development of a framework that specifies different operational activities, including change implementation and innovation activities, in relation to fiscal/financial challenges. This framework enables the empirical investigation of practical interventions and the extent to which their actions can bring about adaptive innovation during fiscal stress. Because change implementation is often led by career servants (Moynihan, 2005) I focus on the practical interventions of bureaucratic implementers, such as *city managers*, as well as *program managers* and *project managers*. I also highlight their relations with politicians and political executives, including their talk and decisions.

#### 1.6 Theoretical building blocks

This book focuses on the interventions by different municipal officials to build institutional capacities for innovative austerity management. It assumes that these actions especially relate to the ability of municipalities to *explore* new knowledge and practice innovation. It also assumes that the interventions to build such capacities relate to the *talk, decisions, and acts* municipalities bring into reality. More comprehensive analytical precision, however, is needed to further investigate these assumptions and develop answers to the research questions. This study therefore uses multiple theoretical insights and models that belong to the aforementioned (organizational and institutional) ‘metatheories’ and provide concrete frameworks to empirically analyze municipal austerity practices. I draw on the metatheories – such as Scott’s (2008) institutional framework or Brunsson’s (2002) talk/decisions/acts conceptualization – to select particular concepts and models that enable me to answer the above questions as precisely as possible.

To answer the first sub question – which focuses on the introduction of new ideas and unexplored concepts in the local discourse – this book focuses on institutions as *cultures* and uses insights from cultural theory (CT, e.g. Douglas, 1982; Thompson, Ellis & Wildavsky, 1990; Hood, 2000) to develop so-called *austerity frames*. I think that CT can facilitate the construction of various austerity frames, each with a different perspective on the causes and backgrounds of fiscal stress, what proper responses and innovations amount to, and who or what needs to be blamed when things go wrong.

The construction of these austerity frames enables me to empirically investigate how local policy elites (can) use discursive interventions to create a new narrative which sets the agenda and opens up routes towards innovation.

To answer the second sub question – which focuses on the development of decisions that stimulate adaptive innovation – I use two sets of theories. First, I review the austerity and cutback management literature in the public sector and the private sector to develop a classification of potential *responses* (decisions) to austerity, including more innovative alternatives. Second, I contextualize Pollitt & Bouckaert’s (2011) well-known *decision-making* framework to find out how the institutional setting influences austerity decision-making. I assume that this combination of a classification and a decision-making framework provides me with concrete coding tools to empirically retrieve the preferences of local policy elites to deal with fiscal stress, and find out how policy elites (can) use decisional interventions to stimulate the exploration of innovative solutions to overcome fiscal stress.

To answer the third sub question – which involves the implementation of innovative solutions – this book uses insights from public sector change management and innovation studies to uncover the relevant acts of implementation. I assume that the generic determinants of successful *change management* (Fernandez & Rainey, 2006) can provide a valuable lens to study the implementation of innovation and change in the particular context of fiscal stress. Because it is repeatedly demonstrated (e.g. Nohria & Gulati, 2006; Herold *et al.*, 2006) that *organizational slack* is crucial for the implementation of innovation, I am especially interested in the slack-building activities of city managers. Both the change management framework and the slack perspective provide me with concrete instruments to empirically analyze municipal implementation practices, and find out how municipal officials (can) use practical interventions to accelerate the implementation of innovative responses to fiscal stress, and to foster a positive setting that stimulates lasting innovation.

### 1.7 Research design

As argued, this book starts from the idea that innovative austerity management is neither a financial problem nor a performance problem, but an institutional problem. Consequently, investigating how municipalities have built the capacities to sustainably deal with fiscal stress, faces me with the challenge of linking abstract institutional metatheories to concrete municipal austerity practices, actions and interventions. This thesis builds upon deep knowledge of one specific field (my

*expertise of municipal financial management*) but simultaneously aims to generate meaningful connections with unexplored knowledge in this domain: *the theory on institutions and organizations* (e.g. Scott, 2008; Brunsson, 2002). Since 2007, I have been working as a financial specialist and management consultant in the public sector, especially in Dutch municipalities, until 2014 when I moved to academia. This background is helpful in two ways. First, it helps guiding the exploration of other disciplines. My familiarity with municipal austerity practices, allows me to quickly decide if certain theories and frameworks are valuable. Second, my practical experience facilitates the transformation of abstract theories into concrete coding tools that enable the empirical analysis of municipal practices.

The chapters 2–6 in this book take the form of a series of case studies. A case study is an empirical inquiry that investigates a contemporary phenomenon (here: *municipal austerity management*) within its real-life context (Yin, 1981). A case study provides the holistic and field-oriented approach that is needed to examine how the different discursive, decisional and practical interventions can be used to build institutional capacities. The design of each case differs per chapter. Each case starts from the municipal austerity practice. Depending on the aim of the case study, the focus is on Dutch municipalities or a combination of municipalities from the Netherlands and other European countries. For each case study, I explore the value of the specific theories that are introduced in section 1.6 to develop concrete frameworks and coding tools that facilitate empirical scrutiny. In chapter 2 (which focuses on discursive interventions), I use CT to construct four concrete austerity frames that enable a cross-national analysis of austerity speeches by local policy elites. In chapter 3 (decisional interventions) I review the literature to create a classification of responses and explore its empirical value. In chapter 4 (decisional interventions) I empirically investigate the decisional preferences and analyze how the broader institutional setting influences decision-making. In chapter 5 (practical interventions) I establish a thick description of one implementation practice. In chapter 6 (practical interventions) I empirically analyze how city managers build slack capacity in during austerity.

The design is *mixed methods* as the answering of the research questions involves the collection, analysis and integration of both qualitative and quantitative data. For instance, while ‘harder’ numerical data are required to classify the preferences of local policy elites to deal with fiscal stress (decisional interventions), ‘softer’ word-based data are necessary to clarify their rhetoric (discursive interventions) when they communicate with the public about the need for and directions of austerity management. I use supplemental strategies to obtain and analyze empirical data.

Qualitative data will be derived from documents – such as speeches, formal accounts, reports, and media coverage – and semi-structured (elite) interviews with key officials that are involved in the austerity practice. Quantitative data will be derived from formal financial statements – such as the budget, strategic business plans, and austerity programs. These statements provide detailed, numerical information (table wise) about the deployed responses, commonly several hundred measures per municipality. Effort is put in triangulation and reliable coding mechanisms to increase the validity of the data.

The different case studies in this book are composed as read-alone publications. More specifically, the chapters exist of academic articles that have already been published in high-quality peer-reviewed journals (chapters 2, 3, 4, and 6) or are under review (chapter 5). An important benefit of this structure is that the chapters can be read independently. People who read the book in a single sitting, however, might encounter some overlap between the chapters. Especially the classification of responses returns in multiple chapters, i.e. chapters 3 and 4. Two articles from the book are co-authored publications. Appendices 1 and 2 clarify how my contribution compares to the contribution of the co-authors.

## 1.8 Academic contributions

This research studies municipal austerity practices from an institutional perspective. It is expected that the results are valuable for academia in a number of ways. The most important theoretical and research contributions are elaborated below.

### 1.8.1 Theoretical contributions

This study contributes to the public management literature in general and the academic debate on austerity and cutback management in particular. So far, this debate is predominantly conducted by public financial management scholars focusing on the financial aspects of the phenomenon (e.g. Schick, 1989; Cepiku & Savignon, 2012; Steccolini *et al.*, 2017), and public management scholars focusing on its performance-related aspect (e.g. Dunsire & Hood, 1989; Pollitt, 2010, Raudla *et al.*, 2015). As argued, a strict financial or performance perspective on dealing with fiscal stress can severely limit perspective and will not bring long-term satisfaction – eventually new discontinuities will force governments to develop original ideas. Although some conceptual articles embrace a more holistic approach (e.g. Pandey, 2010; Bozeman, 2010), there is a need of empirical work. This study provides a first attempt to fill this gap.

This thesis adds to the literature in two different ways. First, it provides an alternative conceptual clarification of austerity management. In the current literature, scholars tend to focus solely on particular components of the phenomenon, most often rhetoric (e.g. Lodge & Wegrich, 2011; Schmidt, 2014) or decisions (e.g. Cameron, 1994; Krueathep, 2013). This study delivers a more *comprehensive* conceptualization of austerity management that integrates its discursive, decisional and practical components. What dimensions of austerity talk, decisions, and acts can be distinguished, and how can they be used in empirical research?

Second, it provides a more precise understanding of the ‘magic concept’ of innovation within the context of austerity management. In the recent austerity and cutback management literature, innovation is used in different and rather unspecific ways. For instance, some scholars equate it more generally with organizational change (e.g. Schmidt, Groeneveld & Van de Walle, 2017; Kiefer *et al.*, 2017) while others consider it as specific improvements to the budget (e.g. Schick, 1988) or the better use of performance information (e.g. Pandey, 2010). This book adds to the literature because it specifies what innovation means for the rhetoric, decisions and acts of municipal austerity management. How can policy elites talk about austerity, and what can be innovative about that? What potential decisions can municipalities make, and what are the innovative alternatives? How can decisions be turned into action, and what are the innovative acts of implementation?

### 1.8.2 Research contributions

A second contribution of this book is related to its research approach. To date, many studies (e.g. Pollitt, 2010, Bozeman, 2010, Cepiku & Savignon, 2012) about fiscal stress and austerity management have a strong conceptual/theoretical focus, although there are some fascinating exceptions focusing on austerity practices (e.g. Levine, Rubin & Wolohojian, 1981; Dunsire & Hood, 1989). Despite the value of the theoretical work, little empirical evidence is gathered to confirm, debar or nuance the theoretically developed arguments and ‘how-to’s’. Moreover, studies that do focus on experiences and/or empirical observations tend to highlight organizations in one country and/or specific aspects of fiscal stress and austerity management, such as the *politics* of austerity management (e.g. Levine, Rubin & Wolohojian, 1981), the preferred *instruments* to cut back expenses (e.g. Scorsone & Plerhoples 2010), or the *sectors* that have been hit most (e.g. Mattila & Uusikylä, 1997). Finally, most empirical data is rather old (the aforementioned, but also Ingraham & Barrilleaux,

1983; Rubin, 1985; MacManus & Pammer, 1990) while the world has changed seriously since the 1980s.

An important contribution of this book is that it provides a unique package of empirical material. The value of the material is related to the *mixed methods* as well as comparative approach that I use: the research generates empirical data that is both quantitative and qualitative, both locally descriptive and internationally comparative, both generally-focusing on municipalities and particularly-focusing on specific municipal actors. All in all, this study provides a recent, extensive, and empirically-supported picture of the ways in which municipalities are dealing with fiscal stress, whether they realize their innovative ambitions, and how they use discursive, decisional and practical interventions to build institutional capacities that enable them to bounce forward from the financial crisis.

### 1.9 Societal contributions

Next to being relevant for public (financial) management scholarship, this study also has value for society. The most important societal and practical contributions are elaborated below.

#### 1.9.1 Societal contributions

Informed by the local political debates and commentaries in the media, we find that when confronted with fiscal stress, local policy elites – such as *council members, mayors, aldermen and interest groups* – tend to focus on the financial aspects of the problem. The democratic debate mainly focuses on the causes of the fiscal deficit, what proper solutions amount to and how fast financial results have to be achieved. The reflections in this chapter, however, show that looking only at responses that fit with the financial performance logics, severely limits our perspective. This study might be helpful for expanding and enriching the democratic debate, so that the chances of long-term satisfaction and enduring (financial) resilience increase.

Local policy elites might use the insights from this research to learn how they can broaden the debate about fiscal stress and austerity management. Local politicians – but also voters and interest groups – might use the insights to assess the relevance of the non-financial and institutional aspects of innovative austerity management. The results might convince them to address other societal and organizational issues, to pose different questions or to focus on different types of results. But if the debate has to be widened – broader than focusing only on finances and organizational

performance – what should it be about? I expect that the empirical data from this research will reveal the most important terms, themes and topics that are used in recent municipal practices.

### 1.9.2 Practical contributions

The practical relevance lies in explaining to municipal officials how they can increase the chances of successful innovative austerity management. The results might be valuable for different officials. First, top level executives and managers (such as mayors, aldermen, and city managers) could use the results to assess how they can contribute to innovative practices, by paving the way for innovation, despite the institutional constraints they face. Do they have a specific role in the trajectory, and if so, what do they have to do to get things done? How can they work *with* rules, norms and beliefs, to go *beyond* rules, norms and beliefs? Although I particularly focus on *local* policy elites, the results might also be relevant for the policy elites of other public organizations, such as ministers, members of parliament and top-level directors.

Second, the results of this study might be relevant for financial and strategic officials as they provide insight into how they can stimulate the development of particular decisions that sets the stage for innovation. What responses are available to municipalities when coping with fiscal stress, and how can we push decision-making into the specific directions of innovation? How can municipalities set new institutional parameters for dealing with financial pressures and stress?

Third, the results might be valuable for officials who are involved in the implementation of innovation and change during austerity. They might use the insights from this study to learn about the differences and similarities of implementation in richer and poorer times. How does innovation and change-implementation work during austerity, and how can we increase the chances for success? How can officials change the ‘rules of the game’ while working with the rules of the game?

Fourth and finally, top-level officials could use the results of this thesis to assess how they can enhance the institutions so that the organization becomes better equipped to sustainably cope with unforeseen difficulties that will happen anyway.

### 1.10 Outline of the book



To achieve the contributions of this study and find out how municipalities can build institutional capacities to sustainably cope with fiscal stress, the next chapters focus on the three interventions that have been introduced in this chapter (see table 1.2 for an overview).

Chapter 2 merges and contextualizes the literature on austerity and cutback management, and CT to develop a conceptualization of four detailed austerity frames that enables the empirical investigation of discursive interventions by local policy elites in Birmingham (UK), Cologne (Germany) and Rotterdam (Netherlands).

Chapter 3 reviews the literature on austerity and cutback management in the public sector and private sector to develop a classification of potential responses to fiscal stress. It also explores the empirical value of the classification by coding more than six hundred austerity responses in eight Dutch municipalities.

Chapter 4 merges the austerity and cutback management literature and the body of knowledge on elite decision-making in the public sector to develop a theoretical framework for municipal austerity management. The framework enables the rigorous empirical investigation of decisional preferences in Dutch and North-Rhine Westphalian municipalities. It analyses more than a thousand austerity decisions and clarifies the relationship between the institutional system and the decisional preferences.

Chapter 5 contextualizes the literature on change management to deduce the determinants of the successful implementation of innovative austerity decisions. It uses the idea of a ‘thick description’ (cf. Ponterotto, 2006) to develop a nuanced empirical view of the implementation in one big Dutch municipality and distillates the practical interventions that have been crucial in that practice.

Chapter 6 merges the literature on organizational slack, innovation and austerity management to identify potential focus areas of practical interventions to build slack for innovation during austerity. It reports how twelve Dutch city managers have been building slack to meet their ambitions to sustainably deal with fiscal stress, and to create a lasting climate that stimulates innovation.

Chapter 7 constitutes the final chapter of this thesis. It returns to the sub questions and combines the insights from the five separate case studies (chapter 2–6) to formulate an answer to the main research question as well as the main conclusion. The chapter ends by offering the academic and societal implications of this study.

**Table 1.2 Outline of the book**

Ch	Title	RQ	Theoretical work	Empirical work	Article
1	Introduction and overview	-	Introduction of theoretical outlook of the study	-	-
2	Paving the way for innovation: framing and reframing the crisis ( <i>discursive interventions</i> )	SQ1	Merger and contextualization of literature on cultural theory and austerity management to develop a conceptualization of four detailed austerity frames	Qualitative comparative case study into the presence and usage of innovative austerity talk by local policy elites in Birmingham, Cologne, and Rotterdam	Published in Public Administration (2018)
3	Setting the scene of innovation: developing concise decisions ( <i>decisional interventions</i> )	SQ2	Extensive review of austerity and cutback literature to develop a classification of potential responses to austerity, including the more innovative alternatives	Mixed-methods exploration study, document analysis and qualitative interviews concerning the decisional preferences in eight Dutch cities	Published in Public Money & Management (2014)
4	Setting the scene of innovation: identifying enablers and barriers of decision-making ( <i>decisional interventions</i> )	SQ2	Merger of literature on decision-making, public management reform and austerity management to develop a theoretical framework for municipal austerity management	Mixed-methods comparative case study concerning the decisional preferences in Dutch and North Rhine-Westphalian cities, and the institutional factors that shape decision-making	Published in Public Management Review (2016)
5	Producing innovation: turning unconventional decisions into reality ( <i>practical interventions</i> )	SQ3	Contextualization of literature on change management and austerity management, to deduce the determinants of the successful implementation of innovative austerity decisions	In-depth qualitative case study, analysis of interview data and documents about the implementation of innovative austerity decisions in one big Dutch municipality	Under review
6	Producing innovation: building slack while coping with fiscal stress ( <i>practical interventions</i> )	SQ3	Merger and literature on organizational slack, innovation and austerity management, to identify potential focus areas and possibilities of slack-building	Qualitative elite interviews and focus group concerning the efforts of twelve Dutch city managers to build slack for innovation during austerity	Published in the Journal of Public Budgeting, Accounting and Financial Management (2018)
7	Discussion and conclusion	RQ	Answers to the research questions, discussion and main conclusions	-	-







**Abstract**

Chapter 2 discloses the presence of different austerity frames that local politicians use when communicating with the public the need for and direction of innovation. The study is built around a comparative case study approach to uncover the usage of specific frames and to test the validity of the two expectations. It focuses on the rhetoric of the political leadership in Birmingham (UK), Cologne (Germany), and Rotterdam (Netherlands). Data are sought from thirteen extensive austerity speeches. I confirm the modest contribution of the individualist frame in NPM-sceptic Cologne, but find no evidence of individualist dominance in NPM-minded Birmingham. Furthermore, I show that the leaders in Birmingham and Rotterdam combine elements of multiple frames so as to create a new promising narrative which opens up routes towards innovation. This study adds to the literature the importance of ‘frame flexibility’ to deal with the complexities of coping with fiscal stress in ways that are logical and innovative, and highlights the importance of further developing understandings of such (municipal) coping.

Chapter 2 is published as an original research article by Tom Overmans in Public Administration.

*Overmans, J.F.A. (2018). Flexible framing: Analysing innovative austerity talk from a cultural perspective. Public Administration, <https://doi.org/10.1111/padm.12412>*



## 2. Paving the way for innovation: Framing and reframing the crisis

### 2.1 Introduction

As a result of the Global Financial Crisis (GFC) municipalities around the globe have been dealing with austerity roughly between 2009 and 2016. Both in practice and academia a strong call for innovative responses has been expressed, in addition to straight financial cuts (e.g. Raudla, Savi & Randma-Liiv, 2015; Schmidt, Groeneveld & Van de Walle, 2017). Innovation, however, is contested. In the field of public management, it is usually interpreted as a process of improving existing products and services of public organizations (cf. Pollitt 2010; Gillinson, Horne & Baeck, 2010). It is discussed in terms of efficiency gains and ‘doing more with less’. Although spending less money is great in austere times, doing more of the same might not always be a good thing. The relevance of looking only at improvements that fit with the fashionable doctrines can severely limit perspective.

Following Sørensen and Torfing (2011), we theorize that innovation is also about the exploration of new ideas and concepts that go beyond the dominant doctrine. Being innovative, then, requires the ability to link alternative worldviews and narratives to the major doctrines (cf. Hood, 2000). It involves the capacity to explore unknown metaphors as well as exploit dominant views, so that new narratives are established. The exploration of alternative views, for instance, allows the development of ideas for insourcing services in market-oriented environments, or using citizens’ initiatives in climates that have been dominated by experts. Despite the increased attention for innovation, it remains unclear how the development of innovative ideas evolves.

This chapter focuses on rhetorical innovation processes in municipalities that are in fiscal crisis. We put emphasis on the frames that local policy elites use when communicating with the public the need for and direction of innovation. The central research questions are:

*How have local policy elites conceived the municipal fiscal crisis? To what extent have they used rhetorical aspects from alternative worldviews so as to move beyond the dominant doctrine and establish a new narrative that paves the way for innovation?*

We study the presence and usage of different worldviews and narratives by highlighting four austerity frames, building on cultural theory (Douglas, 1982). CT



offers the possibility of tracing different conceptions of the crisis and innovative solutions to deal with it, and helps to make sense of the local austerity debate. We test two distinct though not strictly mutually exclusive expectations. Firstly, drawing Pollitt and Bouckaert (2011), we expect that the presence of the individualist frame is related to the importance attached to the NPM philosophy. The *NPM-expectation* suggests that the individualist frame is omnipresent in NPM-minded climates whereas it is largely absent in NPM-skeptic climates. Secondly, we expect that austerity management is framed in ways that go beyond the dominant worldviews to meet the desire for sweeping innovation. The *variety-expectation* suggests that more than one austerity frame is present in the debates by which local policy elites attempt to set the agenda and pave the way for broader innovation.

We empirically analyze the rhetoric of local policy elites by studying austerity-related speeches. We refer to policy elites as those ‘actors who hold political resources to be utilized to exert potential influence in various stages of the municipal policy process, including agenda setting, policy analysis, policy formulation, policy implementation and policy feedback’ (Moyer & Song, 2016). Local policy elites, such as mayors, city council members, aldermen, and city managers are able to frame problems in a specific way thereby shaping the course of action. Because the assessment of speeches requires intensive analyses in multiple languages, the selection was limited to municipalities in three countries. The analysis requires different cultural environments and different degrees of NPM embracement. Because this variety was found in the UK, Germany and the Netherlands, we selected the cities of Birmingham, Cologne and Rotterdam and focused the speeches of the dominant local policy elites.

The chapter is structured as follows. The next section positions this study in a broader debate by introducing CT against the background of debates about the GFC. In the third section we construct four diverging frames to enable a systematic analysis of differences in austerity rhetoric. Section 4 details the methodology we use to analyze our expectations. The results of the empirical analysis are presented in section 5 and discussed in section 6. We draw some conclusions in the final section.

## 2.2 Framing the global financial crisis: making sense of the debate

The GFC that hit most countries in 2008 has been heavily debated. In the early days, debates about the conceptualization and the communication of potential crisis solutions were primarily conducted by state leaders and international actors from the

EU, central banks and IMF. From 2009 onwards, when the GFC caused major deficits in the whole public sector, the discussions emerged at the local level. The debates have been accompanied by a plethora of diverging narratives and rhetoric about what happened, who is responsible, and solutions to deal with the crisis (Lodge & Wegrich, 2011).

In their attempts to make sense of the debates, scholars have increasingly developed rhetorical frames. These frames put emphasis on one or more dimensions within a narrative (Jones & Song, 2014) through which “the ‘sellers’ of reform (political leaders) attempt to convince cynical and detached ‘buyers’ (the public) of the value and logic of their policy agendas” (McCann, 2013:6). McCann distinguishes between two broad interpretations of the GFC and related frames of policy response: pro-austerity and anti-austerity. The *pro-austerity frame* focuses on market mechanisms and argues that financial and organizational reforms are inevitable. It suggests that the introduction of more market mechanisms will eventually lead to better performance as the economy recovers. His contrasting *anti-austerity frame* believes that the government rather than the markets will steer an effective route out of the crisis. It advocates tougher regulation and more activist policies to stimulate economic growth where markets have failed. This frame suggests that cuts and reforms are neither urgent nor unavoidable. Instead it argues that they are changes that neo-liberal policymakers would have wanted to do anyway, now only using the crisis as cover. In this position, the crisis provides a window of opportunity to accelerate market-driven reforms that were already in progress but are usually unpopular with citizens and public officials (McCann, 2013).

The pro- and anti-austerity frames are comparable to the rival frames that have been developed by Schmidt (2014). In her opinion, the range of EU leaders’ ideas about the GFC can be caught in two frames. The *neo-liberalism frame* includes rhetoric about too much public sector debt, the need for austerity and structural reforms. The *neo-Keynesianism frame*, on the other hand, suggests that the crisis was caused by too much private sector debt and too little global regulation, and that expansionary state intervention is needed.

### 2.3 Introducing Grid-Group Cultural Theory

Despite the stimulating insights in the studies, these frames remain broad. More specific frames are needed to analyze the development of new solutions to deal with the GFC at the local level. Against this background, the work of Hindmoor (2010)

and Lodge & Wegrich (2011) becomes useful. Both studies use CT to analyze national discourses respectively about the banking crisis and the financial crisis. CT offers a framework for classifying different worldviews according to four cultural archetypes. These archetypes arise from the combination of two basic dimensions of sociality: grid and group. Grid refers to the degree people’s lives are bounded by rules and conventions (high or low). Group refers to the degree people are tied to one another as part of a collective group (high or low). High grid cultural types are characterized by robust forms of stratification in roles and authority, whereas low grid cultural types reflect a more egalitarian order; high group cultural types exhibit a high degree of collective control whereas there is more emphasis on self-sufficiency in low group cultural types (Douglas, 1982). By combining these dimensions, four cultural types arise: individualist, fatalist, hierarchist, and egalitarian (see figure 2.1).

**Figure 2.1 Grid-group typology**

	<b>Low group</b>	<b>High group</b>
<b>High grid</b>	Fatalists	Hierarchists
<b>Low grid</b>	Individualists	Egalitarians

The *individualist* culture is characterized by self-regulation and weak group loyalty. Rules and restrictions are conditional and subject to negotiation. Individualists view the world as endless source of possibilities equal to all. Because success is seen as an individual matter, government interventions need to be as limited as possible. In this perception, the GFC was caused by the government. They created the too-big-to-fail system through guarantees to banks which gave them the incentive to take exceptional risks, and their efforts to stimulate home ownership among low income groups started the sub-prime failure (Hindmoor, 2010). Solving the crisis, therefore, requires the introduction of market mechanisms rather than more government interventions.

The *fatalist* culture is characterized by a plethora of rules and regulations, and weak group loyalty. Individuals have little influence on the ways they live their life, because everything is organized top-down. Distrust and alienation are typical in this environment (Smullen, 2007). In this perception, the GFC was caused by the complexity of the system on which people have lost all control. Nobody knows what has really happened nor does anybody know how to respond best. Fatalists are skeptic

against any solutions because bubbles and crashes will occur anyhow (Hindmoor, 2010).

The *hierarchist* culture is characterized by strong group loyalty and binding rules and regulations. In this culture, the collective is more important than the individual. Society can live in harmony because different people have different roles (Douglas, 1982). Equality is guaranteed by the law, and blame is put on those who do not endorse the established rules and regulations (Mamadouh, 1999). In this perception, the crisis was caused by inadequate and insufficient regulation to ensure the adequate working of the financial system (Lodge & Wegrich, 2011). New rules and stricter procedures are needed to solve this crisis and to prevent new crises to occur in the future.

The *egalitarian* culture is characterized by few rules and regulation, and strong group loyalty. The environment rejects status differences and prefers rules to be the continuous subject of negotiation (Smullen, 2007). Fairness is equality of result and blame is put on the system (Mamadouh, 1999). In this perception, the crisis was caused by the destructive effects of greed. Extreme bonuses led bankers to take excessive risks, because they knew that the government would rescue them in case the system collapsed (Hindmoor, 2010). Solving the GFC lies in the abolishment of bonuses system and the introduction of new professional standards, including an oath for bankers.

#### 2.4 Constructing cultural frames for austerity management

Hindmoor (2010) and Lodge & Wegrich (2011) confirm that CT is useful to analyze the GFC discourse. Their frames, however, are not suitable for direct application in this study as they focus on the causes and effects of the GFC rather than the development of convincing innovative solutions to overcome austerity, and on central governments rather than municipalities. The construction of austerity frames needs further analytical precision.

Several bodies of literature provide ways to operationalize frames. Public policy scholars have increasingly attached value to the Narrative Policy Framework (NPF) (e.g. Jones, Shanahan & McBeth, 2014). The NPF articulates two levels of analysis. With respect to the *structure*, the framework states that frames must possess four minimal qualities: a setting, a plot, characters, and a moral of the story also known as policy solutions (Jones & McBeth, 2010). Referring to the second level of analysis – *content* – the NPF states that story frames must be anchored in conceptual belief

systems, such as political ideologies or cultural archetypes. These so-called ‘content anchors’ serve to limit rhetorical variation and enable generalizability of findings (Jones & McBeth, 2010).

We are interested in how local policy elites have conceived the crisis and whether or not they used unexplored and faraway concepts from alternative worldviews to create a new promising narrative and pave the way for innovation. The focus, therefore, is especially on the moral of the frames (innovative solutions) and its connection with the belief system. For the operationalization of solutions and key beliefs we build on Hood’s work on culture, rhetoric and public management. Hood (2000) has developed four frames to capture the diverse rhetoric of public management. Each frame presents a different perspective on “who counts as a public manager, what management means, what best ‘best practice’ amounts to and who or what needs to be blamed when things go wrong” (Hood, 2000:222). Hood demonstrates that the use of different frames fosters creative thinking about available forms of management and the exploration of new ideas to deal with problems. In a similar fashion, we develop four frames of austerity management.

Austerity management can loosely be defined as the problem of how to rebalance fiscal budgets against the background of increasing demands for organizational performance (cf. Overmans & Noordegraaf, 2014). It is accepted that austerity and budget cuts are not just about adjustments in the allocation of resources, but particularly about what people find important, about the preferences of a society as much as of the organization (Wildavsky, 1997). We state that the conceptualization of the municipal fiscal crisis and communication of potential solutions can be captured in four specific austerity frames. We discuss each frame below.

#### 2.4.1 Austerity management the individualist way

Individualists believe that the world is populated by rational choosers that prioritize self-interest. Having a strong belief in market mechanisms, they think that government interventions need to be as limited as possible and that success is an individual matter. Organizations, especially the public ones, are bad by definition and only accepted if their existence is truly inevitable. Even then, public organizations should be run like if they were a business. An individualist explanation of the fiscal crisis will point to the underperforming public sector. Old-fashioned governments lack the resilience to deal with the effects of the GFC because of their massive debts (Hindmoor, 2010), reckless spending in periods of economic prosperity (McCann,

2013) and inefficient procedures (Pollitt, 2010). Individualists suggest that the renewed introduction of market mechanisms will solve the crisis and prevent new crises to occur.

Since rivalry and competition are central to the individualist doctrine, they provide the conceptual foundations of austerity management the *individualist way*. The strong belief in utility maximization is reflected in the rationality of austerity management, such as the use of service reviews and savings evaluations in order to make targeted cuts. Their faith in the ‘big society’ places emphasis on the reduction of expenditure rather than the increase of revenue to rebalance budget. When individualists speak about innovation, they refer to organizational ideas of outsourcing municipal services, increased efficiency or sustainable performance delivery. Performance instruments and monitoring activities are introduced to discover waste and improve efficiency. Individualists use the crisis to roll back the government and introduce new management ideas to run municipalities better.

#### 2.4.2 Austerity management the fatalist way

Fatalists believe that the world is occupied with passive voters and consumers that should live with the bad consequences of decisions over which they have no influence. Stressing the unpredictability of crisis periods and the uncertain effect of solutions, fatalists plea for managerial reticence. They consider bubbles and crashes as unique and unpredictable crises that can only be understood in retrospect. A fatalist explanation of the fiscal crisis will stress the complexity of the global financial system and the assumption that nobody truly knows what has happened. Fatalists are deeply skeptical about solutions as they are likely to worsen as to recover the problem.

Austerity management the *fatalist way* embodies a rather passive and random strategy to deal with the fiscal crisis. At most, it involves the unwilling adoption of ad hoc responses and cosmetic cuts, and denial and delaying tactics. Fatalists accept that it is impossible to anticipate next crises. Because any attempt to secure the future is condemned, no importance is attached to the development of innovations. Instead fatalists surrender to the crisis and hope for better times to come.

#### 2.4.3 Austerity management the hierarchist way

Hierarchists believe that the world is composed of different groups of people such as families, organizations, and societies. They argue that the existence and wide recognition of mandatory rules and authority are crucial for a groups orderly

functioning. They believe that individual desires should be sacrificed to the needs for the whole (Hood, 2000). Instead of letting the markets decide what is good for the people, hierarchists have a strong belief in a proactive public sector and a decisive role of experts to steer the group in the right direction. A hierarchist explanation of the fiscal crisis will emphasize the lack of order and the hampering regulative system. They will argue that the crisis was caused by the regulators' failure, for instance, to ensure minimal levels of capital and liquidity within the banking system (cf. Hindmoor, 2011), or full compliance of member states with the rules of the fiscal stability and growth pact. Hierarchists suggest that more and stricter rules as well as a more active government are needed to steer society effectively out of the crisis.

Because hierarchists have a strong belief in the capabilities of financial experts and their dedication to the orderly functioning of the group, austerity management the *hierarchist way* will focus on stricter procedures, more planning and foresight, clearer assignment of authority, and more managerial grip. The process is likely to be defined and dominated by financial experts. There is a clear centralization of power, with rule-based and top-down budgeting, and more power for the finance department. In order to maximize the autonomy of municipal experts, the influence of associated bodies should be as limited as possible. When hierarchists speak about innovation, they will refer to ideas of improving the institutional structures of regulation and oversight, such as the development of new budgeting rules, or the establishment of tighter financial agreements and new regulative bodies. Hierarchists exhibit a robust faith in the directing role of the government to regulate the crisis and restore societal order.

#### 2.4.4 Austerity management the egalitarian way

Egalitarians believe that the world is composed of different groups of people that share a set of beliefs and values that are important to them. Rather than accepting the power of overpaid hierarchical managers, they heavily rely on group self-management and participative forms of decision-making. An egalitarian explanation of the fiscal crisis will stress the pernicious effects of greed (cf. Hindmoor, 2010) and opportunism of top-officials (cf. Hood, 2000). Because egalitarians have a strong belief in communitarianism and participative organization, they think that the solution for the crisis must not be sought in more market mechanisms or more expertise, but in the empowerment of effected groups.

Austerity management the *egalitarian way* is likely to be organized bottom-up to limit the damaging influence of power-hungry top-officials and know-it-all financial

experts. Alternatively, they will use participative forms of austerity management and budgeting to solve the crisis fairly. Sharing-the-pain strategies are more likely in this position, because they contribute to the morale and team spirit, and unite members of an organization. When they speak about innovation, egalitarians refer to ideas that increase the democratic level and transparency of decision-making, citizen participation, or coproduction. Egalitarians communitize the crisis to create a local communitarian state (cf. McCann, 2013) where austerity management is managed mostly without managers.

Table 2.1 summarizes the four austerity frames and provides a clear coding framework to trace different conceptions of local policy elites about the fiscal crisis and innovative responses to deal with it.

## 2.5 Research design

### 2.5.1 Study setting

We used a cross-national comparative approach to test the validity of our two expectations. Contextual diversity was needed in two different ways. Firstly, to test the *variety-expectation*, we wanted municipalities with different dominant cultural worldviews. Secondly, to test the *NPM-expectation*, we needed municipalities with differences in the level of adoption of the NPM philosophy. Because there are almost no data about municipal cultures, we started from the national positions. This is not problematic because it is argued that despite a certain level of cultural heterogeneity within countries, urban regions tend to group into national clusters (Minkov & Hofstede, 2014). Informed by their comparison of governance regimes, Pollitt and Bouckaert (2011) distinguish between three dominant philosophies: the public interest model, the continental European model, and the consensualist model. The public interest model, dominant in countries such as the UK, is according to the authors open to the performance driven and market favoring ideas of NPM and is likely to stimulate sweeping reforms to roll back the government. The continental perspective, the central paradigm in countries like Germany and France, considers the state as the central integrating force within society. Pollitt and Bouckaert (2011) argue that such regimes are more traditional and less hospitable to NPM ideas. Third types are the consensualist regimes, including the Nordic states and the Netherlands. Although these regimes often borrow from NPM, the consensualist system tends to ‘blunt the



**Table 2.1 Four frames of austerity management**

	<b>Individualist frame</b>	<b>Fatalist frame</b>	<b>Hierarchist frame</b>	<b>Egalitarian frame</b>
Approach	Using the crisis	Surrendering to the crisis	Regulating the crisis	Communitizing the crisis
Emphasis	Markets, rationality and utility maximization	Unpredictability and unintended effects	Fiscal expertise, forecasting and management	Group self-management, participation, and power
Blame	Faulty incentive structures through over-collectivization and old-fashioned public organizations	Volatile economic circumstances, uncertainty regarding national austerity policies	Poor compliance with financial procedures, improper financial system	Abuse of power by national government, unfair distribution of national austerity policies
Response	Targeted cuts based on rational forms of austerity management (analysis shows)	Cosmetic cuts and minimal austerity management (nobody knows)	Centralized cuts and expert forms of austerity management (expert knows)	Across-the-board cuts and participative forms of austerity management (community knows)
Innovations	Performance and efficiency-related improvements	No importance attached to innovations	Regulative and procedural improvements	Democratic and participatory improvements
Watchwords	Choices, efficiency, performance	Downsizing the crisis, denial, skepticism, passivity	Steering, local autonomy, multi-year plans	Fairness, consultation, community participation

sharper corners of NPM, leading to less outright criticism of the government, a cautious rather than wildly enthusiastic approach to privatization and less rapid style of implementation' (2011:64). These considerations, along with the fact that the UK, Germany, and the Netherlands score differently on several important dimensions of

Hofstede's (2011) cultural model, such as individualism, uncertainty avoidance, and long-term orientation, have stimulated us to focus on these countries.

Within the countries, we selected the cities of Birmingham (UK), Cologne (Germany) and Rotterdam (Netherlands). The case selection was primarily determined by the presence of austerity. All three cities were seriously hit by the GFC. In fact, they have had the doubtful honor of coping with the largest fiscal squeeze in their countries. In all three municipalities, austerity management has been a topic of great concern with maximum attention from the local policy elites. In the background also other characteristics played a role, making Birmingham, Cologne, and Rotterdam interesting for a comparison. For instance, all cities were heavily bombed during the Second World War; they share a history of major post-war reconstruction. Also, all cities have a comparable economic tradition with a key role of heavy industries. Prosperous economic conditions attracted many blue-collar workers to move to the city in search of jobs. Finally, the demographic conditions show many similarities: such as a large number of inhabitants, significant and growing share of ethnic minority groups, substantial role for the labor party in running the city, and so on.

#### 2.5.2 Data sources

This study draws significantly on thirteen extensive speeches that local policy elites have delivered to communicate with the public about the need for and directions of innovations to overcome austerity. The municipalities were actively requested to provide speeches which substantially covered the GFC and the fiscal crisis in their municipality between 2010 and 2015. Because this chapter focuses on the official story, we only analyzed formal accounts. We argued that the method of delivery might vary and examples of speeches were given. A wide range of documents was provided by the municipalities, ranging from savings reviews to business plans and from financial statements to audit reports. In general, given the proactive attitude of the municipalities to cooperate, it can be confidently expected that all major arguments are present. After examining the received documents, we selected one type of account, i.e. the local policy elites' (written) address in which they communicated with the city council (and the citizens) about the fiscal crisis and the directions to overcome the crisis. In Birmingham this was the Council Leader's *Budget Speech*, in Cologne the speeches by the Mayor and the City Treasurer (*Rede anlässlich der Einbringung des Haushalts*), and in Rotterdam the Budget Speech (*Kaderbrief*) by the Council for Mayor and Aldermen (CMA). Thirteen extensive speeches were included that

substantially covered the conceptualization and the communication of potential crisis solutions (see table 2.2).

**Table 2.2 Speeches investigated**

<b>Birmingham</b>	<b>Rotterdam</b>	<b>Cologne</b>
Leader's Budget Speech 2012	Kaderbrief 2010	Rede Oberbürgermeister 2010
Leader's Budget Speech 2013	(Budget Letter)	(Mayor's Budget Speech)
Leader's Budget Speech 2014	Kaderbrief 2011	Rede Oberbürgermeister 2011
Leader's Budget Speech 2015	Kaderbrief 2012	Rede Oberbürgermeister 2012
	Kaderbrief 2014	Rede Stadtkämmerin 2013
	Kaderbrief 2015	(City Treasurer's Budget Speech)

### 2.5.3 Data analysis

Based on the theoretically deduced austerity frames, we created an *Nvivo-10* database that included the main features of the four austerity frames: perspective, emphasis, blame, response, innovations and watchwords (table 2.1). As indicated, qualitative data in the austerity speeches by local policy elites were categorized according to their implied Grid-Group characteristics and their fit with the austerity frames (cf. Lodge & Wegrich, 2011). The classification of frames was done by two independent researchers to check on inter-coder reliability. The Kappa of 0.78 indicates a strong degree of coding agreement (the common interpretation of Kappa is substantial agreement between 0.60 and 0.80; and near perfect agreement between 0.80-1.00). The remainder of this chapter presents the aggregate picture of frame presence in the speeches between 2010 and 2015.

### 2.6 Findings

We trace 817 references in thirteen speeches that cover a total of 168 pages. The claims refer to all different frames. The Birmingham case generates 404 references in four speeches, the Cologne case 243 references in four speeches, and the Rotterdam case 172 references in five speeches. The descriptive statistics are shown in table 2.3. We discuss each municipality below before presenting some comparative findings.

**Table 2.3 Descriptive statistics**

	<b>NPM-minded Birmingham</b>		<b>NPM-hybrid Rotterdam</b>		<b>NPM-skeptic Cologne</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Individualist frame	141	35	72	42	42	17
Fatalist frame	21	5	9	5	11	5
Hierarchist frame	96	24	43	25	137	56
Egalitarian frame	146	36	46	28	53	22
<b>Total</b>	<b>404</b>	<b>100</b>	<b>172</b>	<b>100</b>	<b>243</b>	<b>100</b>

### 2.6.1 Framing the fiscal crisis and innovative responses in Birmingham

Birmingham City Council has been dealing with an unprecedented fiscal crisis. A combination of declining revenues and increasing demands for services generated a major shortfall of £600m (€760m), half of the city's manageable budget. The fiscal squeeze brought Birmingham in an existential crisis: more than a third of the administration had to be axed and the municipality had to limit its activities to provide only those services for which it had a statutory responsibility. Because little could be done to generate extra income through council taxes, severe austerity responses were necessary from 2010 onwards.

Since the UK belongs to what Pollitt and Bouckaert (2011:161) describe as the NPM core group, we expected a strong dominance of the individualist frame in the speeches by the *Council Leader*. To an extent, the data confirm our expectation. We traced 141 (35 per cent) that neatly fit with the individualist frame. Individualist references typically emphasized the lack of performance and need to reform the administration. For instance, taken from the 2013 speech:

“The scale of the problem we are facing means we cannot simply make year on year efficiency savings. We have to plan for a radical change in what the council does and how it does it, and that will take years to bring about. So we have already begun a program of fundamental service reviews that will identify the activities that contribute most to our objectives, those that could be done more cheaply and those that could be discontinued” (Birmingham 2013:10)

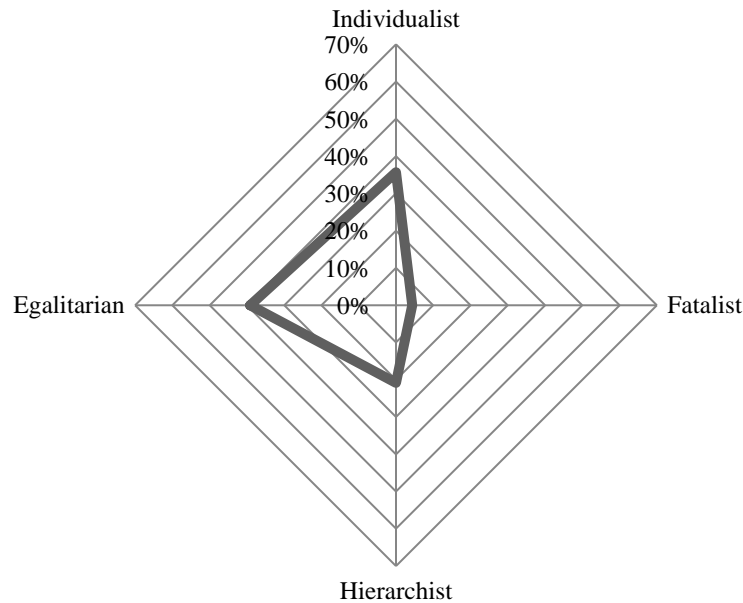
The quotation illustrates the expressed need for sweeping innovation, but also the importance of rational decision-making and long-term organizational performance. Despite the evident presence of the individualist frame, however, we cannot confirm a strong dominance of the individualist frame. On the contrary, with 146 references (36 per cent) the egalitarian frame was in fact traced most often.

Rather than a strict focus on business-like improvements, the Leader's rhetoric was packed with egalitarian aspects like bringing fairness to the city, protecting vulnerable people in society and using ideas from the community. Taken from the 2013 speech:

“There was also strong support in the consultation for our key priorities. But there were strong concerns about the impact of cuts on the voluntary sector and on vulnerable children and young people. We listened and have responded to all of these concerns in our final budget proposals.” (Birmingham 2013:12)

The quotation suggests that the municipality exhibits a strong faith in the value of community involvement rather than using it only for decorative purposes. Noticeable is the rather large presence of hierarchist references in the speeches. We traced 96 references (24 per cent) that focused on ideas to regulate the crisis and talked about taking responsibility proactively, the need for financial experts and more and better financial forecasts. Only a relatively small part of the discourse (21 references, 5 per cent) referred to the fatalist view. These references were usually concerned with issues of skepticism, and accusing the opposition parties for being fatalistic.

The Birmingham case generates a story of a municipality dealing with extreme levels of fiscal stress. The expected dominance of the individualist frame was not supported by the data. When communicating with the public, the Leader did not rely solely on the individualist frame, but instead he used multiple frames (figure 2.2). Rather than building only on fashionable elements, he deviated from normal path and went another way. He drew on unexplored concepts and ideas from alternative worldviews to create a new promising narrative. The creation of this different narrative has to be considered as the first stage of innovation, and paved the way for the second stage, that is: the actual development of unconventional responses. For instance, by accentuating unfamiliar egalitarian elements – such as greed, fairness and the abuse of power – the Leader reframed the fiscal crisis and smoothed the path for democratic and participatory improvements in Birmingham.

**Figure 2.2 Austerity framing in Birmingham**

### 2.6.2 Framing the fiscal crisis and innovative responses in Cologne

A large fiscal challenge was also recognized in Cologne. Dealing with yearly fiscal deficits between €200m and €300m, the municipality faced a serious financial crisis. Managing austerity was nothing more than a necessary step in surviving as an independent municipality, as doing nothing would leave Cologne with a massive annual deficit of €447m as well as being subjected to the directives of the oversight agency (*Kommunalaufsicht*). The situation prompted large scale recovery programs with revenue- and expenditure-related measures.

Because previous research (Pollitt & Bouckaert, 2011) has argued that Germany has always been very skeptic against the NPM-philosophy, we expected only a small presence of the individualist frame in Cologne. The evidence confirms this and tells an entirely different story than the Birmingham case. In the speeches delivered by the Mayor (*Oberbürgermeister*) and the City Treasurer (*Stadtkämmerin*), we traced 42 references (17 per cent) that referred to the individualist frame. In Cologne, the individualist claims usually refer to rational decision-making and organizational reform. For instance, taken from the 2010 and 2012 speeches (note: we translated all

quotations from the speeches in Cologne and Rotterdam to English to increase the readability):

“The service review presents a strong and clear need to reform the organization, its people and its structure.” (Cologne 2010:5)

“Demands for new equipment have to be examined on simplicity and cost effectiveness.” (Cologne 2012:7)

Many other aspects of the individualist frame, however, were strongly rejected. The below quotation, for instance, illustrates that the introduction of market mechanisms was seriously condemned.

“The privatization of local enterprises remains taboo; our municipal societies are not for sale. They are the anchor points for economic stability and important to safeguarding the general interest!” (Cologne 2011:2)

Rather than focusing on the markets to steer an effective route out of the crisis, hope was invested in the government. The vast majority of references (137 references, 56 per cent) fitted precisely with the hierarchist frame. The leadership placed serious emphasis on the collapse of the financial system, and the immediate municipal interventions that were needed to restore the order. For instance, taken from the 2010 speech:

“The municipal financial system has totally collapsed. [...] The current deficit forces us, to do whatever is necessary to preserve our local autonomy. We will do whatever it takes to stay away from an emergency plan for the City of Cologne; we will do whatever it takes to stay away from a mandatory deficit reduction plan which will force us to consolidate our debts within four years.” (Cologne 2010:1)

The quotation illustrates the way the crisis was perceived in Cologne. It also shows that retaining substantial local autonomy was considered essential for maximizing the range of possible solutions to deal with the crisis.

Although the impact of the crisis for residents was unmistakable, the data show that the role of common people was subordinate to the role of public officials, especially financial experts. It was the experts that set out the tracks for specific action; residents had to trust the municipality, especially the finance department, for its expertise. For instance, taken from the 2011 speech:

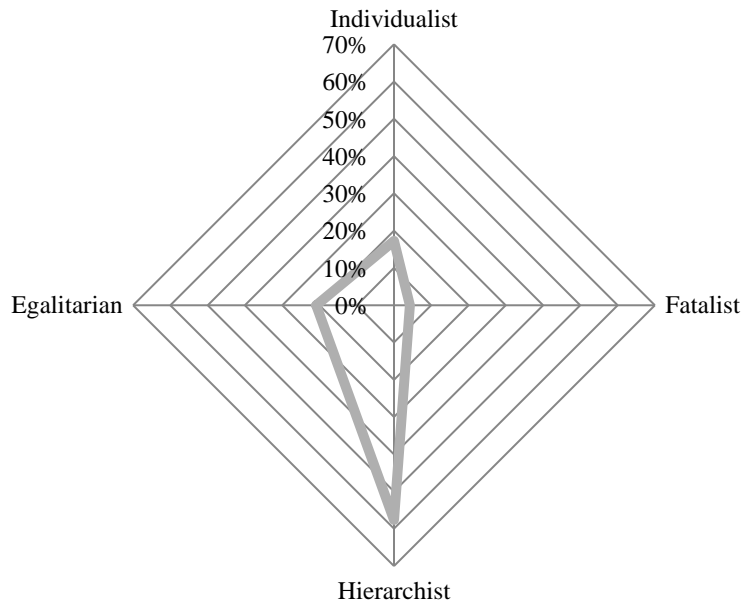
“In a period of difficult financial conditions, prudent action is required. Continuity and reliability are highly important to our citizens. Especially in difficult times, citizens need a recognizable track with secured guardrails. With this 2012 Budget and the related medium-term financial forecast, we lead the people into the right direction. [...] The people in the city can trust us. We have demonstrated our competences through reliable and sound financial policies in recent years.”  
(Cologne 2011:1-3)

The dominance of the hierarchist frame is indisputable. Nevertheless, the data also reveal the use of other frames. In addition to the relatively limited use of the individualist frame, we traced 53 references (22 per cent) in the egalitarian frame. Typically, these claims stressed the importance of fair and balanced responses, and the involvement of external partners. The speeches, however, do not contain any evidence of actual events of community involvement or participation. Instead, the role of residents in steering the municipality out of the crisis can better be described as passengers than as co-pilots. Comparable to Birmingham a small number of fatalist references (11 references, 5 per cent) appeared in the speeches. They typically referred to issues of uncertainty and hesitation.

The Cologne case produces another story of a municipality in the eye of a storm. In line with our expectations, we observe a dominance of the hierarchist frame at the expense of the individualist frame. More interesting, however, is the unexpected absence of alternative frames in Cologne. The *Mayor and City Treasurer* relied strongly on the hierarchist frame to conceptualize the crisis and possible solutions (figure 2.3). Rather than exploring stories and metaphors from alternative worldviews, they focused primarily on conventional ideas and concepts from the fashionable doctrine. The lack of exploration has limited the leaderships’ perspective and inhibited the establishment of a new narrative. We find little evidence of a deviating story that opened the way for innovation in Cologne. Because the narrative did not change, solutions were not very innovative in terms of developing new and unconventional ideas.



**Figure 2.3 Austerity framing in Cologne**



### 2.6.3 Framing the fiscal crisis and innovative responses in Rotterdam

Due to a serious combination of declining revenues and increasing expenditure on public services, Rotterdam was dealing with the gravest financial challenge in its history. The municipality had to cope with an annual deficit of €260m. It outweighed anything implemented during previous fiscal crisis events. Due to the limited possibilities to increase revenues with higher council tax, the deficit had to be closed with expenditure cuts, such as axing 2,500 jobs (more than 20 per cent) from the administration.

Because the Netherlands occasionally “borrowed from the NPM rhetoric, though only selective and cautiously from practice” (Pollitt & Bouckaert, 2011:161), we expected a clear presence of the individualist frame, but also and maybe more importantly a more equal frame distribution than in NPM-minded climates. The evidence confirms this expectation. Unlike the situation in Cologne, we show that there is no strong dominance of one specific frame in Rotterdam. We traced 72 references (42 per cent) that fitted with the individualist austerity frame, typically

stressing notions of an underperforming municipal organization with unnecessary high levels of costs. For instance, taken from the 2010 speech:

[We envision] “a smaller government with fewer people, which focuses on those areas where the government is indispensable and where it has a clear task. The implementation has to be efficient and excellent, with fewer rules and less bureaucracy.” (Rotterdam 2010:2)

“In the first place we will look critically at our own organization. Excellent performance is central; introducing new policy is subordinate. We will uncover possibilities for better efficiency, such as by improving our procurement, by reducing benefits for employees, by reducing the number of communication officials, by reducing the internal bureaucracy, and by cheaper services. At the end of 2015, 1,000 officials have left the organization. This requires substantial organizational change and fundamentally different ways of working.” (Rotterdam 2010:10)

The quotations illustrate the importance attached by the CMA to ensuring that the role of the municipality will be as limited as possible, and that the administration is run as efficient as possible.

Despite the large presence of the individualist frame, however, we also traced many other references especially from the egalitarian and hierarchist frames. We found 46 claims (28 per cent) that referred to the egalitarian frame. Egalitarian claims usually considered aspects of transparency and a joined approach between the municipality and its external partners and residents. For instance, from the 2010 speech:

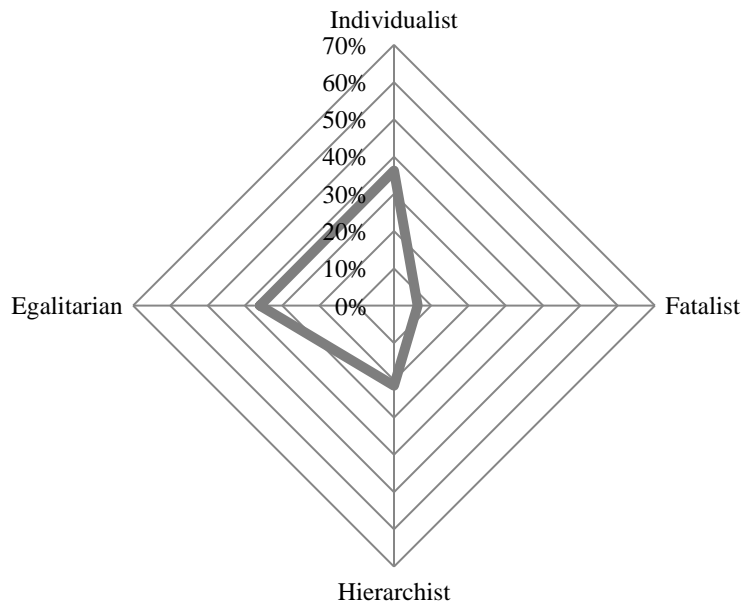
“In line with our ambitions of transparency, there must be enough room for diversity and initiatives by citizens. The CMA therefore provides funding and invites citizens to come up with new initiatives.” (Rotterdam 2010:4)

The quotation – especially the part that states that funding is available – is illustrative for the municipal desire to involve the community for developing solutions to deal with the crisis. We find, however, no evidence of actual participatory processes or other residential influences on adjusting budget priorities. Instead, the solid presence of the hierarchist frame (43 references, 25 per cent) suggests an active role of the financial experts. Hierarchist references typically addressed the importance of solid finances and the importance of comprehensive budget forecasts. For instance, taken from the 2010 speech:

“The economic recession has consequences for public finances, both at national and local level. That we need to cut back expenses is beyond any dispute. [...] Doing nothing is not an option. It might even generate extra costs for society if we don’t intervene at this moment.” (Rotterdam 2010:1)

The quotation clarifies the expressed importance of active governmental interventions to steer the city out of the fiscal crisis. Comparable to the other cases, a small number of fatalist references (9 references, 5 per cent) appeared in the speeches, typically referring to issues of uncertainty.

**Figure 2.4 Austerity framing in Rotterdam**



The Rotterdam case generates a third story of a municipality dealing with fiscal stress. Based on the hybrid NPM character of Rotterdam, it was expected that the individualist frame would be important but that other frames would also be present in the debate. The data confirm this expectation, but it is interesting that the individualist frame was more dominant here than in NPM-minded Birmingham. Nevertheless, the CMA used a wide variety of austerity frames to present the crisis in terms of what happened, who or what was responsible, and putting forward convincing solutions (figure 2.4). Rather than adhering to one single conception of the crisis and possible

solutions, the leadership accentuated ideas and concepts from different doctrines. This fostered the establishment of a new narrative and created room for the development of innovative solutions. Because the leadership placed emphasis on individualist, egalitarian and hierarchist aspects, the ideas in Rotterdam varied from efficiency-related improvements to procedural improvements to participatory improvements.

#### 2.6.4 Comparing results against the expectations

Generally, the use of the hierarchist, individualist, and egalitarian frame is most common. They cover around 95 per cent of all references. The importance of the fatalist frame, however, should not be misjudged. No politician wants to be accused of denying the crisis, delaying the development of solutions, or other forms of poor austerity management. But when leaders are confronted with scarcity and uncertainty, the chances of fatalistic behavior are likely to increase (Caiden & Wildavsky, 1974).

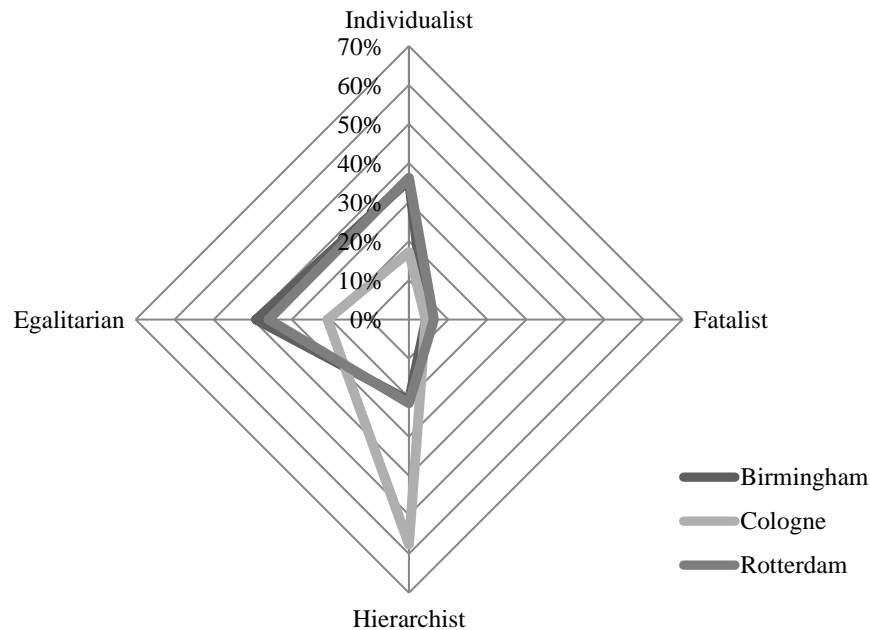
We cannot strongly confirm the *NPM-expectation* that individualist framing is more likely in NPM-favoring climates. Although numerous claims in NPM-minded Birmingham refer to the individualist frame, similar emphasis is placed on the egalitarian frame. The evidence from Cologne and Rotterdam is more in line with our expectation. Individualist framing is rather trivial in NPM-skeptic Cologne where the hierarchist frame dominates the discourse. The idea of multifarious framing in hybrid Rotterdam is also supported by the data, although we find a strong presence of individualist claims. We confirm that different conceptions of the crisis and potential solutions exist in the empirical debates. Nevertheless, we remain reluctant to assign these differences to the various degrees of NPM adoption.

We introduced the *variety-expectation* to find out whether or not local politicians have moved beyond the dominant frame in order to pave the way for innovation. We find a clear difference between Birmingham and Rotterdam on the one hand, and Cologne on the other (figure 2.4). In Birmingham and Rotterdam, the elites have used aspects from different worldviews by which they established a fresh narrative. In contrast, the elites in Cologne were more rigid and focused mainly on the fashionable hierarchist frame. We conclude that Birmingham and Rotterdam were more innovative than Cologne, as the elites managed to combine elements of alternative austerity frames so as to create a new narrative which paved the way for innovation (figure 2.5).

## 2.7 Discussion

In line with previous findings (e.g. Hindmoor, 2011; Lodge & Wegrich 2011) we show that the rhetoric that local policy elites have used to frame the crisis and potential solutions can be captured with four austerity frames, especially the individualist, hierarchist, and egalitarian frame. We stress, however, the significance of the fatalist frame, which is too often disregarded in CT studies. Although we agree that the frame is used only selectively in the speeches, our contribution to CT lies in our argumentation that the fatalist frame remains important as elites can use it consciously to accuse other parties for being fatalistic or to stress the unpredictability of an encounter. Familiarity with and selective use of the fatalistic frame can help the policy elites to protect their image and set the course of action. We encourage future researchers to include and materialize the fatalist frame in their empirical investigations.

Our main finding is that a new narrative offers leeway for the development of innovative solutions. New narratives arise when policy elites successfully intertwine unexplored and faraway concepts from alternative worldviews with concepts from the fashionable doctrine. By stressing the importance of such ‘frame flexibility’, we move away from a static focus on *frames*, towards a more dynamic understanding of the *framing* process. This is important because several authors (e.g. Van Hulst & Yanow, 2016) have argued that the public does not always realize that problem definitions are not given, but framed by the leadership. This chapter opens up the processes through which such framing occurs in municipalities that are dealing with a serious crisis. It provides a first answer to scholarly calls (Ibid.) to increase empirical insights into the processes of policy framing. We argue that how policy elites do this, and how successful they are, varies from city to city. But we demonstrate that it is definitely possible to move beyond the dominant frame, create a new narrative and pave the way for innovation.

**Figure 2.5 Austerity framing in Birmingham, Cologne and Rotterdam**

The evidence confirms the *NPM-expectation* in Cologne and Rotterdam, but not in Birmingham. One possible explanation for the moderate contribution of the individualist frame in Birmingham might be explained by the fact that the municipality is not as NPM-minded as the national government in the UK. Another explanation might be related to the political composition of the leadership. It may be attractive to assign the differences to the influence of the Labor party who long controlled the city. But this idea is not supported by the evidence. Rather than using the hierarchist, the elites put emphasis on the egalitarian frame. Another observation, i.e. political fragmentation, might explain the differences. After decades of overall control by the Labor party, Birmingham Council has been fragmented since the 2000s. This may have resulted in a political climate that is more open to deviant cultural perspectives and strives for consensus. We invite future researchers to further clarify the relationship between the influences of party politics and governance regimes, and the development of different types of innovations.

Regarding the *variety-expectation* we find a distinction between two innovative municipalities and one more or less changeless municipality. One possible explanation for the strong dominance of one single frame might be in the absence of

a need or desire for widespread innovation. The cautious attitude in Cologne towards innovation aligns with recent empirical findings in German municipalities (Overmans & Timm-Arnold, 2016). The preference of local policy elites to exploit proven solutions over the exploration of new ideas, might explain the homogeneous framing in Cologne.

Of course there are methodological drawbacks. Firstly, our findings are restricted to three municipalities in three countries. The analysis of speeches in other municipalities, or in other countries, might generate different results. Although our results might be unsuitable to make sweeping generalizations, we exhibit faith in the framework and the appropriateness of the frames to serve as a coding tool for the analysis of the austerity discourse. We think that this deficiency is not problematic because the aim is not on proving what the dominant cultures are but about how the elites have been using elements of other frames to create a new narrative. Secondly, we invested in selecting appropriate municipalities with different cultural worldviews and different levels of NPM adoption. Because there are no data about the local environments we had to rely on national positions. Despite the evidence that subnational regions are likely to group into national clusters (Minkov & Hofstede, 2014), there might be more heterogeneity within countries. Thirdly, we only focused on the formal accounts. The inclusion of other accounts, such as opposition statements or newspaper articles, might generate other views. Although these views might affect the debate, the development of new ideas remains the core business of policy elites.

## 2.8 Conclusion

The aim of this study was to clarify how local policy elites have conceived the fiscal crisis, and to find out if they have used rhetorical aspects from alternative worldviews to pave the way for innovation. We show that elites indeed have different conceptions of the crisis, and that these differences can be captured with four frames. When policy elites conceive the crisis in a hierarchist way, they will focus on the hampering regulative system and open the way for regulative and procedural innovations. If they stress the individualist frame, elites will point to the underperforming public sector and pave the way for performance and efficiency-related innovations. If the crisis is framed in an egalitarian way, they will stress the need to empower affected groups and smooth the path for democratic and participatory innovations. Even policy elites who accept that it is impossible to anticipate next crises, will likely use aspects of the fatalistic frame such as delaying tactics.

We conclude, however, that austerity framing is not necessarily rigid. On the contrary, the only way to foster innovation is for elites to use unexplored concepts and metaphors and develop new narratives that enable them to speak convincingly to the public. We disentangle the processes of combining aspects of different frames for the creation of a locally-nuanced frame, which is paucity in CT research. This chapter also puts emphasis on the possibilities of local policy elites to create leeway and pave the way for preferred policy changes. Although there are limits to ability of policy elites to move beyond the dominant doctrine, the evidence shows that some leaders are able to develop a new narrative that stimulates the development of new ideas. Unless the elites' understanding of their possibilities and their sense of innovation change, genuine innovation will remain elusive. In any case, timing is crucial: once policy frames are captured by an institution, they are not likely to change (Jones & Song, 2014).









## Abstract

In chapter 3, we uncover different austerity responses (decisions). We show how municipalities can deal with fiscal stress, and what decisions are innovative. The study relies on a review of 46 scholarly publications, and develops a classification of responses to fiscal stress. Four responses are distinguished: organizational cuts (e.g. ending policies, closing service points), fiscal cuts (e.g. even-percentage-cuts-across-the-board, terminating third-party grants), fiscal change (e.g. fiscal engineering, raising taxes), and organizational change (e.g. optimizing work processes, changing routines). We explore the empirical value of the classification by studying deployed measures in eight Dutch municipalities. Quantitative data are sought from austerity plans and budget books; qualitative data are sought from interviews with fifteen practitioners. The main finding is that, rhetorically, municipalities are innovative. Talk indicates austerity management through organizational measures and innovations, not with fiscal measures. In reality, however, most municipalities predominantly use fiscally-oriented measures that tend towards stability. This study adds to the literature that austerity can be managed by four archetypical responses and that Dutch municipalities have a preference for fiscal measures. We show that innovative talk does not automatically lead to innovative decisions.

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### 3. Setting the scene of innovation: Developing alternative strategies

#### 3.1 Introduction

Public organizations have been facing financial and economic crises for a good number of years. Resources have declined and restoring the equilibrium between income and expenditure continues to be a major challenge. Numerous scholars have studied responses to austerity. For instance, they have explored: *political responses* (for example Levine *et al.*, 1981), *cutback management* (for example Dunsire & Hood; 1989; Pandey, 2010), *leadership* (for example Behn, 1980; Carmeli & Scheaffer, 2009), *success factors* (for example Cameron, 1994), and *organizational change* (for example Kelman, 2006).

Despite some useful insights in these publications, it is difficult to be clear about the nature of responses. First, many concepts are used—over 35 can be identified (see Cameron, 1994; Bozeman, 2010). Second, most publications lack clear definitions of concepts, which makes it difficult to describe and explain responses. This problem is pressing as present-day responses to austerity are encountering unprecedented challenges (for example Pandey, 2010). Public organizations are entering into an ‘era of public spending cutbacks and austerity’ (Pollitt, 2010); where income is substantially lower than in the past. The objective of this paper is to create a better understanding of organizational responses to austerity, and to identify those responses that have innovative potential.

#### 3.2 Austerity and fiscal stress

The role of government during periods of austerity is ambiguous. Not only has the government to deal with fiscal stress itself, many will see the government as part of the solution. Keynes (1930) explained the need for government policies aimed at reinforcing macroeconomic demand and encouraging private sector investment and consumption. In periods of austerity, he said that governments need to borrow money to spend it on public works in order to create jobs and purchasing power. Straightforward restoration of the deficit, according to Keynes, would make things worse. This perspective was challenged by Hayek (1931) who considered that public investments would only have short-term effects on employment or economic reform. Hayek's view was that a government should reduce its deficits in order to control the inflation and increase productivity.

In contrast to private enterprises, public organizations are constrained in choosing their mission. They cannot simply reduce unprofitable services or expand profitable markets (Levine, 1978). Public managers depend on resources derived from taxation. The constraints of this ‘publicness’ are most apparent during periods of austerity, when fiscal stress arises as revenues decline and demands for public services increase due to, for instance, unemployment or social reintegration.

### 3.3 Coping with austerity

Coping with austerity is the responsibility of public sector managers. However, most public sector managers have experience in dealing with moderate continuous growth: with there being more winners than losers in budget-setting. During periods of fiscal stress, budget-setting becomes more subject to power struggles and has more losers than winners. Managing fiscal stress requires extraordinary leadership and carefully chosen responses (Carmeli & Scheaffer, 2009). Many managers find ways of working around austerity. For example Dunsire & Hood (1989, p. 209) show that, despite all managerial effort, only one of many rounds of cuts actually resulted in sustained reduction of expenditure—the so-called ‘Geddes axe’. In addition, Cameron *et al.* (1993), focusing on downsizing in the automobile industry, showed that the challenge of austerity resulted in improved organizational performance and competitiveness.

There is an evident wave of renewed scholarly interest in organizational management in public sector organizations (Cepiku & Bonomi Savignon, 2012). In addition to empirical studies, a number of publications provide theoretical insights. These include literature reviews of austerity concepts (for example McKinley, 1993; Bozeman, 2010, Raudla *et al.*, 2013). In addition, several authors have addressed and attempted to clarify conceptual issues (for example Weitzel & Jonsson, 1989; Freeman & Cameron, 1993; Pollitt, 2010). Although these publications are of great importance, none are comprehensive. For example, detailed analyses of private sector concepts – like downsizing – are absent in public administration literature. Consequently, little is known about the differences and similarities between public sector responses and private sector responses. In addition, the discrepancy between fiscal approaches and organizational approaches is underexposed, although several publications do hint at this contrast (for example Cameron, 1994; Pollitt, 2010).

### 3.4 Austerity management literature

To clarify organizational responses, we reviewed the austerity management literature. First, information from academics and practitioners was used to identify the classics

(for example Levine, 1978; Levine *et al.*, 1981; Dunsire & Hood, 1989). Second, references from these publications were used to discover other relevant publications. Third, a Google Scholar search was performed for ‘typical’ austerity concepts: austerity, budgets, budgetary process, cutbacks, compressing, decline, deficit, downsizing, downshifting, fiscal balance, fiscal stress, reallocating, retrenchment and slimming down. Publications focusing on public administration and generic management literature were analyzed. Austerity publications related to organizations, organizational responses and management were included.

The process resulted in a total of 46 publications – table 3.1 provides an overview of publications referred to in this paper. The literature review produced an ambivalent picture. There were many conceptual and linguistic ambiguities. A variety of concepts was used, many of which were interchangeable. Even the authors who mention this (for example Bozeman, 2010) had difficulty sticking to a single concept. In itself, this is not problematic considering that most authors shared a common ambition. They were trying to understand organizational responses against the background of contextual circumstances (specifically environmental and financial circumstances). As these circumstances differ from situation to situation, the use of concepts will be contingent upon expectations and organizational actions. This interchangeability will affect austerity *talk*, *decisions* and *actions* (see Brunsson, 2002). In order to cope with austerity, each government needs to find its own mixture and to shape and communicate its own strategy (Pollitt, 2010).

Responses to austerity have some essential similarities – they are all aimed at restoring the balance between income and expenditure. They can all be considered as strategies deployed by managers in specific situations. In that sense, austerity management can be defined as: ‘*executive and managerial responses, aimed at restoring the fiscal balance, against the background of increasing demands for [public] services and [political and public] expectations of organizational performance*’. It is also important to be clear about the differentiated nature of responses, in order to understand how different forms of austerity talk, decisions and actions are developed and realized.

#### Identifying responses to austerity

To develop a more precise understanding of responses to austerity, we selected four key concepts – concepts that were widely used in the academic literature that could be clearly distinguished from each other; and that were used in different contexts:



1. Decline;
2. Cutbacks;
3. Retrenchment;
4. Downsizing.

Responses have two clear dimensions: some focus on stability and others on change. In addition, some responses primarily stress fiscal measures, others organizational measures – see table 3.2. Responses and typical measures are summarized in table 3.3.

**Table 3.1 Austerity management literature**

Type	Journal	Author(s)
Article (public administration)	Public Administration Review; Public Money & Management; International Journal of Public Sector Management; Public Administration Quarterly; Social Policy and Administration; Journal of Policy Analysis and Management; Society and Economy	Levine, 1978; Levine, 1979; Biller, 1980; Behn, 1978; Behn, 1980, Boyne and Walker, 2004; Bozeman, 2010; Pandey, 2010; Cepiku and Savignon, 2012; Boyne and Walker, 2004; MacManus and Pammer, 1990; Starke, 2006; Kelman, 2006; Pollitt, 2010
Article (generic management)	Academy of Management Journal; Administrative Science Quarterly; Organisation Science; Academy of Management Review; Journal of Business Ethics; Human Resource Management Journal	Whetten, 1980; Cameron et al., 1987; D’Aveni, 1989; Weitzel and Jonsson, 1989; McKinley, 1993; Freeman and Cameron, 1993; Whetten, 1987; Carmeli and Scheaffer, 2009; Morris et al., 1999; Cameron, 1994
Book/chapter		Levine et al., 1981; Dunsire and Hood, 1989; Cameron <i>et al.</i> , 1993

### 1. Decline (organizational cuts)

Although introduced by Waldo in 1976, ‘decline’ is generally attributed to Levine (1978) or Whetten (1980). Decline is one of the oldest and most widely used concepts in the austerity literature. Both authors urged the need to study decline as a passive managerial reaction to an unknown environmental circumstance (see also Pandey, 2010). Especially in the early years, declining organizations were considered to be

badly managed. According to Weitzel & Jonsson (1989), organizations enter the state of decline when they fail to anticipate, recognize, avoid, neutralize, or adapt to external or internal pressures that threaten the organizations long-term survival. Although scholars increasingly refer to decline as a normal period in an organizational life-cycle (for example Bozeman, 2010), it is commonly considered as an isolated response to overcome a temporary crisis. Decline is a reactive response predominantly aimed at the (temporary) reduction of expenditure, generally maintaining the *status quo*. Most definitions of decline include a reduction of ‘number of staff, profitability, budget, or demand for products of services’ (Whetten, 1980, p. 583). Decline not only restores the fiscal balance, it also ‘include[s] managerial imbalances, actions concerned with efficiency, centralization effects and strategic paralysis, all reflecting threat rigidity responses’ (D’Aveni, 1989, p. 599). Decline has a dominant focus on reducing organizational activity and public services, with indirect effect on the fiscal balance.

**Table 3.2 Austerity decisions**

	<b>Stability</b>	<b>Change</b>
<b>Fiscal measures</b>	2. Cutbacks (fiscal cuts)	3. Retrenchment (fiscal change)
<b>Organizational measures</b>	1. Decline (organizational cuts)	4. Downsizing (organizational change)

## 2. Cutbacks (fiscal cuts)

Mainly used in public administration literature, ‘cutbacks’ are a second response to austerity. According to Levine (1979, p. 180): ‘cutback management means managing organizational change toward lower levels of resources consumption and organizational activity’. Despite Levine’s inclusion of organizational change, cutback measures mostly consist of temporary adjustments to restore the fiscal balance, rather than measures that contribute to the long-term viability of organization (Weitzel & Jonsson, 1989). This ‘preservation’ nature of cutbacks is also found in current publications. Cepiku & Bonomi Savignon (2012, p. 430) categorize cutback management as: ‘a reactive strategy for dealing with decline’. Pandey (2010) urged the need for a broader perspective on cutbacks by stating that instead of a short-term reductionist approach to cutback management, a holistic and long-term perspective is necessary. Although there is some attention for organizational activity (for example D’Aveni, 1989), cutbacks typically have a strong fiscal orientation. For instance,

almost all common cutback measures – seniority, hiring freezes, even percentage across-the-board cuts, productivity criteria and zero-based budgeting (Levine, 1978) – are aimed at a direct reduction of deficits. There is some support for the fiscal approach of cutbacks. According to Weitzel & Jonsson (1989), cutbacks need only be considered if a simplistic measure of size is the operational definition of success. Pollitt (2010) states that financial crises are sometimes managed with straight cutback management, but no fundamental system reforms.

### 3. Retrenchment (fiscal change)

Probably the most cited publication on ‘retrenchment’ is the work of Levine *et al.* (1981). Despite its interesting insights in how governments manage fiscal stress, it lacks a definition. Another early author, Biller (1980), described retrenchment as a proactive response, focusing on generating new resources, typically by taxation or redistributing existing resources. Biller (1980) said that the challenge is not to accomplish the exactly right cuts, but to ensure that sufficient cuts are made to permit both necessary saving and innovations to go forward. The reform-orientation of retrenchment is more widely embraced. For instance, Weitzel & Jonsson (1989) argue that retrenchment, unlike cutbacks, have to be considered as responses to diminished effectiveness. Similar to cutbacks, retrenchment tends to have a strong fiscal orientation. Some scholars even refer to it as fiscal retrenchment (for example MacManus & Pammer, 1990). Starke (2006) stresses that retrenchment authors predominantly focus on expenditure levels instead of policy change. Although some work acknowledges that retrenchment includes more than fiscal variables (for example Levine *et al.*, 1981), the potency of organizational adjustments is underestimated.

### 4. Downsizing (organizational change)

Although ‘downsizing’ may be unfamiliar in public administration literature, many generic management scholars have studied the concept. The term grew out of popular usage rather than precise theoretical construction (Freeman & Cameron, 1993). Downsizing is mostly seen as a strategy for improving organizational performance and restoring organizational -environmental fit, not as something that happens to an organization (Cameron, 1994; Bozeman, 2010). According to Cameron (1994, p. 194), downsizing refers to ‘an intentionally instituted set of activities designed to improve organizational efficiency and performance which affect the size of an organization’s workforce, costs and work processes’. Except for the one-dimensional

reduction of a workforce, downsizing strategies consist of organizational and personal adjustments to improve organizational performances. While operation, technology and structure of organizations seldom remain the same when downsizing and repositioning occurs, downsizing is strongly associated with organizational change (Freeman & Cameron, 1993).

**Table 3.3 Responses to austerity and typical measures**

	<b>Organizational cuts (decline)</b>	<b>Fiscal cuts (cutbacks)</b>	<b>Fiscal change (retrenchment)</b>	<b>Organizational change (downsizing)</b>
Approach	Stability, dominant focus on organization	Stability, dominant focus on fiscal balance	Change, dominant focus on fiscal balance	Change, dominant focus on organization
Typical measures	Closing facilities, reducing range and quality of public services, reducing social benefits (or raising admission levels), lowering maintenance levels	Across-the-board budget cuts, terminating grants, non-granting of vacancies, external hiring freezes	Introducing and raising taxes, increasing rates for services, fiscal engineering (e.g. intertemporal compensation, extending depreciation periods, delaying capital spending)	Optimizing work processes, digitizing public services, merging organizational parts, outsourcing government tasks, modernizing work places, introducing new work methods

### 3.5 Research design

In order to investigate how public organizations deal with austerity, qualitative research was conducted. Between February and July 2012, 15 interviews were carried out. Thirteen of the respondents worked in Dutch municipalities: one *municipal executive*, eight *city managers*, two *directors*, one *project manager* and one *controller*. Also, an *expert* from the Dutch Financial Relations Council and one *professor* of public sector innovation were interviewed. All semi-structured interviews were conducted by the same interviewer. Three topics were discussed: challenges (urgency), ambitions (talk), and packages (approaches, decisions).

Quantitative research was used to specify and objectify municipal decisions on austerity. To begin with numeric and textual data was collected to disclose responses. The data covered intended measures, not realized measures. In The Netherlands, responses to austerity are commonly expressed in the budget book which is approved by the municipal council. For each city, a monetary value was determined: what is the contribution of each measure? Values were based on the year  $t + 4$  ( $t =$  moment of decision) to examine the structural impact of measures. Responses were identified as *decline (organizational cuts)*, *cutbacks (fiscal cuts)*, *retrenchment (fiscal change)* or *downsizing (organizational change)*. Based upon a coding scheme, two questions were asked for labeling every response. First, was the response predominantly aimed at stability, or change? Second, was the response primarily fiscally-oriented, or organizationally-oriented? The coding scheme is set out in table 3.4.

**Table 3.4 Coding scheme**

	<b>Operational criteria</b>	<b>Typical vocabularies</b>
Stability	Measures focus on the <i>status quo</i> , they are aimed at superficial reduction of activity and budgets; lowering expenditure is the main objective	Ending, closing, lowering, cutting back, terminating, freezing
Change	Measures are pro-active, targeted and aimed at long-term viability; retaining and improving performance is the main objective, reducing (slack) activity and expenditure is an indirect result	Reallocating, adjusting, optimizing, simplifying, modernizing, redesigning
Fiscal measures	Measures focus <i>directly</i> on restoring and retaining the fiscal balance; reducing deficits is the main objective	Budgets, grants, taxes, investments, tariffs, inflows, means
Organizational measures	Measures focus on organizational structures, systems and processes; organizational activity and performance are the main objectives; reducing deficits is an <i>indirect</i> result	Services, performance, structures, work processes, quality, culture

#### Case selection

Earlier empirical research has tended to focus on the USA and to some extent the UK (Bozeman, 2010; Raudla *et al.*, 2013), ours looked at Dutch municipalities. In The Netherlands, municipalities are independent political organizations, bounded within

the public system. Almost all Dutch cities are experiencing severe fiscal stress. In line with the explorative nature of this study, cases had to represent variety and had to be accessible in order to gather accurate information. In order to legitimize the variety of our sample, five criteria were used to select cases (see table 3.5).

First, both large-scale and small municipalities were included. Second, municipalities were selected -based on the intensity of their fiscal stress. Third, we differentiated between left-wing and right-wing municipalities. Fourth, cities were selected by the strength of their economic region – regional GDP (CBS, 2010) Fifth, we differentiated between the levels of public services. Cities with a ‘very strong’ center function offered the highest level of services: health care, education, transportation, culture, sports. Cities with ‘no’ center function offered a modest number of service. Commonly, municipalities with a stronger center function had higher levels of income and higher average debts per capita (VNG, 2010).

**Table 3.5 Characteristics of municipalities studied**

	<b>Inh. x1,000</b>	<b>Initial chall. (m€)</b>	<b>Per capita (€)</b>	<b>Deployed measures (#)</b>	<b>Political structure</b>	<b>Regional economic growth (%)</b>	<b>Centre function</b>
M1	800	250	313	94	Left wing/ center	2.5	Very strong
M2	620	225	362	63	Center	1.1	Very strong
M3	200	33	165	54	Center	1.4	Moderate
M4	200	50	250	89	Left wing	9.3	Strong
M5	44	3.5	80	53	Center	0.3	Strong
M6	43	2.0	47	99	Center	2.2	Moderate
M7	25	4.6	184	49	Right wing/ center	2.3	Moderate
M8	17	1.5	89	108	Left wing/ center	2.5	No

### 3.6 Findings

#### Austerity talk (ambitions)

Coping with austerity is a serious issue for Dutch managers. Three main findings arose from the interviews. First, all but one of the respondents expressed a clear need to

develop and deploy extensive austerity packages to respond to severe levels of fiscal stress. Regarding austerity talk, we found sparse evidence for ‘denying or delaying tactics’ (see Dunsire & Hood, 1989; Raudla *et al.*, 2013). On the contrary, extensive packages had been developed, and decision-makers were facilitated to make the ‘right’ decisions. As one city manager argued:

‘The main challenge of this operation is to provide the decision-makers with a broad range of austerity measures, but to deploy only those measures that contribute to the attractiveness of the city and maintain the organizational performance levels’.

Second, respondents acknowledged the value of a conceptual clarification of ‘this multidimensional concept’. By and large, they recognized both dimensions in their practice. Most respondents had few difficulties in categorizing measures and interpreting the meaning of responses. According to another city manager:

‘Straight cuts are just one option, for instance by reducing budgets. Instead, more reform-oriented types of responses can be deployed. For example, smarter work processes for better performances and lower costs. Both are feasible. But when the environment and public expectations change, innovative cuts have to be made’.

Third, the majority of respondents expressed a clear ambition to rebalance income and expenditure with innovative measures. Although it was accepted that ‘straight cuts’ sometimes had to be made, respondents also wanted to manage austerity with organizational innovation, rather than fiscal measures. One of the municipal directors argued:

‘These days, it is not about the reduction of activity, it is about changing our performances. Innovative austerity management drives further than the simple restoration of the fiscal balance. Our ambition is to lower our expenses by delivering our products faster, working more closely with our partners and by using technical innovation’.

The ambition to establish organizational innovation is supported by an initiative involving 13 Dutch city managers who are working together to increase the innovative potential of municipal response packages – the ‘*Network on Innovative Austerity Management*’.

### Austerity decisions (decision packages)

In order to discover how Dutch municipalities were coping with austerity, and to find out whether managers had realized their ambitions, austerity packages were studied in depth. The selected municipalities had used a total of 609 austerity measures; 220 measures were ‘*cutbacks*’, 183 we labelled ‘*decline*’, 125 ‘*retrenchment*’, and 81 ‘*downsizing*’. The relative contribution of each response was examined. We were interested in the monetary value of each measure (rather than the amount of particular measures).

Our results demonstrate that cutbacks took the largest share in the average austerity package of these eight municipalities (33.5%), closely followed by retrenchment (31.5%) – see table 3.6. This is similar to earlier findings that across-the-board cuts (for example Levine *et al.*, 1981) and reducing capital spending (Dunsire & Hood, 1989) are commonly among the first measures to be implemented (see also Raudla *et al.*, 2013). Although the number of decline measures outranks retrenchment, the relative value of decline measures was nine percentage point lower (22.5%). Downsizing made the least contribution (12.6%).

### Variation in responses

In-depth analysis of austerity packages shows a considerable variation in responses deployed in Dutch municipalities. The municipalities in our sample deployed all four responses. Larger municipalities used a wide range of responses (municipalities 1–4). Mid-sized and smaller municipalities did not use all responses but focused mainly on three types (municipality 8), two types (municipalities 5 and 6) or one type (municipality 7). The largest variation occurs in the fiscally-oriented measures. Standard deviations for cutbacks (18.1%) and retrenchment (13.5%) were noticeably higher than for decline (7.3%) and downsizing (8.0%). It remains unclear how local features affect the deployed responses. Our research did not find any significant patterns regarding decisions and size, level of fiscal stress, political structure, economic base or center function.

### Limited stress on organizational change

A second pattern that emerged was that responses were predominantly fiscally-oriented, and work towards stability. Except for one municipality (municipality 1), our Dutch cities were mainly using fiscally-oriented were cutbacks and retrenchment. Although opportunities to increase incomes are limited, most cities (especially



municipalities 3, 4, 5 and 8) were trying to regain budgetary space. We found that only 12.6% of all responses in Dutch municipalities were aimed at organizational change. In our sample, downsizing always was the smallest category (municipalities 2, 5–8) or the second smallest (municipalities 1, 3 and 4).

**Table 3.6 Responses in eight Dutch municipalities (% , based on relative monetary value).**

	<b>Organizational cuts (decline)</b>	<b>Fiscal cuts (cutbacks)</b>	<b>Fiscal change (retrenchment)</b>	<b>Organizational change (downsizing)</b>
M1	30	28	18	25
M2	27	39	23	11
M3	26	14	39	21
M4	16	27	39	18
M5	31	8	58	3
M6	11	53	25	11
M7	16	61	19	4
M8	23	38	31	8
<i>Aver.</i>	<i>22.5</i>	<i>33.5</i>	<i>31.5</i>	<i>12.6</i>
<i>SD</i>	<i>7.3</i>	<i>18.1</i>	<i>13.5</i>	<i>8.0</i>

### 3.7 Discussion

There are some drawbacks to our study. First, our findings are restricted to eight Dutch municipalities. Although these municipalities differ in several ways, the results cannot be used to make sweeping generalizations. Second, we have included only initial austerity packages. Some municipalities have now implemented new packages to respond to new periods of fiscal stress. For reasons of comparison within the sample, these were not included. Despite these limitations, we show that numerous responses to austerity are being implemented and that downsizing measures are unpopular. Despite ambitions to be innovative and to ‘use’ fiscal stress to modernize the administrative machinery, austerity management tends to ‘fall back’ to approaches that are not really organizational, let alone innovative. This is understandable as municipal executives commonly concentrate on safe measures with short-term budgetary wins and minimal public opposition (see Levine *et al.*, 1981; Raudla *et al.*, 2013). Also, managing austerity is difficult. In line with Pandey (2010), we find that managers experience a strong distinction between restoring the fiscal balance and

modernizing their organization. In addition to international comparison of responses, future research should focus on the development and implementation of responses and the creation of viable ‘austerity practices’.

In order to align austerity talk and decisions, we need to develop a better understanding of the obstacles that might be encountered when political and administrative actors might develop measures in the light of ‘increasing demands for (public) services and (political and public) expectations of organizational performance’.

### 3.8 Conclusion

The aim of this paper was to create a better understanding of organizational responses to austerity, with specific emphasis on understanding whether responses have innovative potential. We distinguish between four widely-used concepts: *decline*, *cutbacks*, *retrenchment* and *downsizing* and used them to identify *austerity talk* and *austerity decisions*.

Evidence from eight Dutch municipalities shows considerable variation in austerity management. Municipal austerity talk indicates management through organizational change, not with fiscal measures. In reality, however, most municipalities predominantly use fiscally-oriented measures that tend towards stability. Since municipal responses were aimed at both rebalancing and modernizing public organizations, it is questionable whether these austerity measures can be regarded as successful. Austerity management more balanced relations between rhetoric and reality.



# 4

Setting the scene of innovation: identifying  
enablers and barriers of decision-making



**Abstract**

In chapter 4, we uncover the relationships between the institutional system and the nature of austerity plans. We identify how municipalities deal with fiscal stress and study how decision-making is affected by the politico-administrative system. The study is built around a cross-national comparative case study approach to reveal the influence of five institutional aspects, i.e. financial autonomy, austerity conventions, aldermen-mandarin relations, administrative culture and sources of ideas. It relies on the austerity practices of five Dutch municipalities and five North-Rhine Westphalian (NRW) municipalities. Quantitative data are sought from austerity plans and budget books. The main finding is that there is an important difference in preferred strategies to deal with fiscal stress. Dutch municipalities have used the crisis as an opportunity to realize reforms, whereas NRW municipalities have regarded the challenge as a temporary issue and chosen fiscal discipline and stability. This study adds to the literature that, although municipalities across the globe superficially seem to deploy similar measures, their actual responses are much more diverse. We highlight the importance of the institutional system on the directions of austerity management. We show that politico-administrative aspects – especially financial autonomy and administrative culture – stimulate or prevent sweeping reforms.

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## **4. Setting the scene of innovation: Identifying enablers and barriers of decision-making**

### 4.1 Introduction

Over the past six years, austerity management has come to dominate the political discourse in Western countries and beyond (McCann, 2013). A combination of declining resources and increased spending has led to daunting levels of fiscal stress. When faced with austerity public sector organizations can choose from a variety of strategies on the expenditure side and the revenue side. Although it is likely that these strategies arise from differing ambitions and fit the differing environments of the organizations concerned, there is a relative lack of systematic research concerning the factors that shape austerity strategies (Raudla et al., 2013).

It is argued that responses to austerity, like other types of public management reform, are influenced by environmental factors, actor-related factors and organizational factors (cf. Bogumil & Strohmeier, 2012a, Pollitt & Bouckaert, 2011). Numerous studies have focused on the relationships between environmental factors – mostly duration and severity – and deployed responses (e.g. Raudla et al., 2013). Also, a number of studies focus on actor-related factors during periods of austerity (e.g. Dunsire & Hood 1989, Levine et al., 1981). Because little is known about the relationships between organizational factors and reforms during periods of austerity, this chapter focuses in particular on the influence of the politico-administrative system.

The politico-administrative system typically refers to structural, cultural and functional elements of a public organization that are likely to affect the character, pace and pattern of reforms (Pollitt & Dan, 2011). Pollitt & Bouckaert (2011:48) introduce five key features that influence the process of reform: basic structure and autonomy, governing conventions, mandarin/minister relations, philosophy and culture of governance, and sources of policy advice. The objective of this chapter is to show how municipalities respond to austerity and to clarify the relationships between the politico-administrative system and responses to austerity.

### 4.2 Framework for local austerity management

Municipalities can choose from a variety of strategies when faced with austerity. The nature of their response is affected by multiple features. We build on previous work for creating a framework for analyzing municipal austerity plans. Bogumil &



Strohmeier (2012a) argue that austerity responses are influenced by socio-economic conditions, institutional factors and actor-related factors. Raudla et al. (2013) argue that austerity strategies are a function of two overarching factors: environmental factors and organizational factors. These perspectives consolidate in the model of public management reform (Pollitt & Bouckaert, 2011). Pollitt & Bouckaert (2011:2) consider public management reform as ‘deliberate changes to the structures and processes of public sector organizations with the objective of getting them (in some sense) to run better’. Although we remain aware of the state-level orientation of the original PMR-model, we think it also provides a strong basis for developing a specific framework for studying municipal austerity plans. Since many austerity measures include changes in structures, systems and processes which are aimed at reforming organizational activity and performance, austerity measures can be regarded as a type of public management reform.

Our framework for local austerity management (figure 4.1) therefore postulates that the nature of municipal austerity plans is the product of an elite decision-making process. In choosing accurate responses to austerity, local executives and officials are deeply shaped by socio-economic forces and politico-administrative variables.

#### 4.2.1 Socio-economic forces

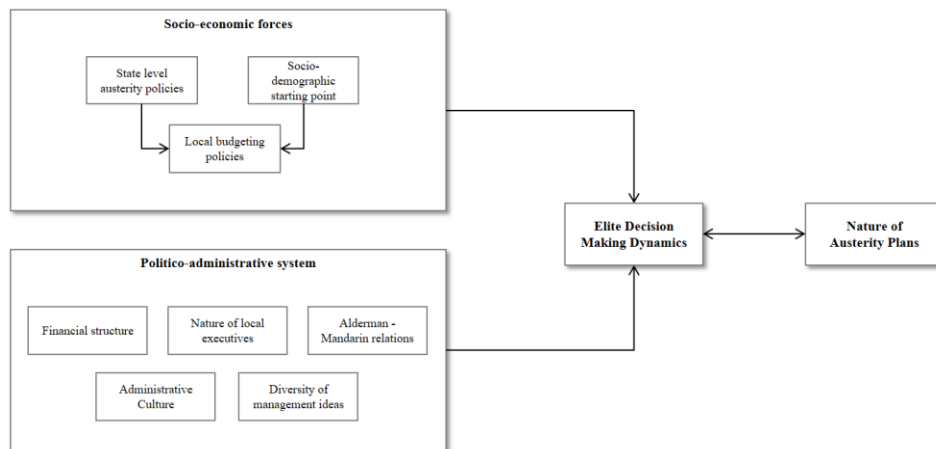
We hypothesize that the socio-economic forces consist of two exogenous elements which result in a set of local budgeting policies. The first environmental element that seriously affects the local degree of local budgetary challenge is state-level austerity policies. Municipalities are responsible for implementing a part of the reforms imposed by higher levels of government (Bogumil & Holtkamp, 2013; Miller & Hokenstad, 2014). For instance, cutting the Municipality Fund or decentralizing national tasks without providing adequate budgets, is likely to generate large deficits at local level. The size and scope of state-level austerity plans almost automatically affects the scope and size of local austerity management tasks.

The socio-demographic starting point refers to the local socio-economic and demographic environment. Changing economic circumstances, demographic developments or decreasing land prices affect municipal income, expenditure and the deficit. It is argued that more advantageous starting points and better prospects facilitate austerity management. For example, municipalities with growing populations and sustainable economic activity are likely to have fewer problems in enlarging their local revenue base (Bogumil & Strohmeier, 2012a). The demand for

safety-net facilities is also less common in flourishing cities than in failing cities. Conversely, it is expected that poorer municipalities foresee tougher times and harder choices, due to declining revenues at the same time as increasing demands for public services.

The socio-economic forces are reflected in local budgeting policies, which provide a description of the municipality's financial situation - its starting point, the conditions in which decision-making has to take place and the possible directions open to it.

**Figure 4.1 Framework for local austerity management (loosely adapted from Pollitt & Bouckaert 2011)**



#### 4.2.2 Politico-administrative variables

The local politico-administrative system refers to structural, cultural and functional elements that are likely to affect the processes of municipal reforms. Pollitt & Bouckaert (2011) argue that five key features exert a significant influence over the choice of reforms to be adopted and the feasibility of implementing reforms. Each feature will be discussed in turn, applied to the context of local austerity management.

Financial autonomy refers to the degree of discretionary power over municipal finances. In other words, to what extent can significant austerity decisions be made at the local level? Municipalities in some countries benefit from a revenue base which is substantially local in its source, whereas municipalities in other countries are strongly dependent on transfers from higher levels of government. Municipalities with

a low degree of control over their finances typically place more weight on cutting expenditure and municipalities with a high degree of control place more weight on increasing revenues (cf. Asenova et al., 2014). Also, municipalities with a high degree of control over finances are more likely to proceed in different directions and at different paces, resulting in more diverse austerity plans.

Austerity conventions refer to the institutional setting in which the municipal responses are developed and decided. That is, to what extent is the austerity trajectory initiated and defined by the municipality itself? In countries with a high degree of local ownership, the trajectory is commonly initiated and defined solely by the municipality. Municipalities have autonomy to develop responses that fit with the local context. The role of higher levels of government or supervising authorities is more or less subordinate, although they have to agree with the budgetary framework and the sustainability of budget decisions. In countries with a low degree of local ownership, the trajectory is commonly initiated and to a degree defined by the proactive supervising authority. Although municipalities retain their political control over the final responses to be adopted, the development of responses is seriously affected by the authority's involvement. In this case the trajectory is considered a joint effort rather than a local exercise. Typically, sharing-the-pain strategies are more likely in local trajectories which are open to broader political discussions and a wider range of interests (cf. Pollitt & Bouckaert, 2011). Furthermore, it is likely that local ownership increases the coherence between ongoing reforms and new austerity measures.

Aldermen-mandarin relations refer to the relationships between executives and top officials. The relationships between these two elite groups vary considerably from one country to another. For instance, municipalities in some countries are led by elected mayors with significant local political control, whereas municipalities in other countries are led by crown-appointed mayors who chair the board of aldermen more or less as a non-political *primus inter pares*. Also, in some countries the municipal administration and its officials are led by the mayor, whereas local administrations in other countries are led by professional city managers. Where aldermen and mandarin roles are heavily intertwined and partnership occurs, it is expected that austerity plans can be implemented more easily. Higher politization on the other hand, creates a bigger gap between executives and officials, most likely resulting in less legitimacy and less willingness to cooperate.

The administrative culture refers to embedded factors which shape the impact of reforms; and is hard to transform in the short-term (Pollitt & Dan, 2011). Most public sector organizations seem to be guided either by the Rechtsstaat model or the Public Interest model (Pierre, 1995). From the Rechtsstaat perspective, municipalities have a central role in society & its focal concerns are with the effectuation and enforcement of laws. Senior officials are commonly trained in the law. The bureaucratic stance will tend to be one of rule-following and precedent, and the actions of officials and citizens will be set in the context of correctness and legal control (Pollitt & Bouckaert, 2011). The law is seen as a socially necessary element and there is attention for precedent and equality. From the Public Interest perspective, municipalities have a less dominant role in society, and their power needs to be as minimal as possible. Although the law is considered an essential element of governance, it is usually in the background rather than the foreground (Pollitt & Bouckaert, 2011). Senior officials are commonly pragmatic and flexible generalists who work for a government that guarantees fairness and independence. It is argued that municipalities with Rechtsstaat regimes are less reformable because of the dominant legalism and regulation, and the traditional service system (Reichard, 2003).

Finally, sources of austerity ideas refers to the number and variety of channels that introduce innovative ideas and so provide local decision makers with alternatives for managing austerity. Ideas can be brought in by homogenous groups (other municipalities) or competing sources (business consultants, focus groups, academics). A broader mixture of ideas generally results in a higher number of response types.

#### 4.2.3 Municipal austerity plans as result of elite decision-making

The decision-making process is at the heart of the framework because municipal austerity plans are commonly deployed top-down. The major concern of decision-making is to find the perfect fit between what is desirable, and what is feasible (Pollitt & Bouckaert, 2011). Because city leaders cannot always get what they want during periods of austerity, decision-making on fiscal consolidation is highly political (cf. Kickert, 2012).

#### 4.3 Coping with austerity

There is a large body of literature focusing on austerity management, and related themes as cutback management or fiscal stress management (for a comprehensive literature review see Raudla et al., 2013). Unlike cutback management, austerity management and fiscal stress management strategies cover both the expenditure side

and the revenue side (Raudla & Kattel, 2013; Konzelmann, 2014). In this article austerity management is considered as the management of “executive and managerial responses, aimed at restoring the fiscal balance, against the background of increasing demands for public services and political and public expectations of organizational performance” (Overmans & Noordegraaf, 2014:101).

Although it also commonly has political motives and efficiency motives, a key objective of austerity management is the restoration of the fiscal deficit. However, there are many approaches to restore fiscal balance. For instance, a distinction can be made between the classic approaches, which consider the challenge as an isolated response to overcome a temporary crisis, and the contemporary reform-oriented approaches, in which ‘it seems logically that austerity measures are conducted in such way that considers the long-term effects rather than simply being focused on achieving short-term budgetary savings’ (Asenova et al., 2014). It is widely accepted that austerity management should be regarded as a holistic encounter towards sustainable performing organizations, and not as an isolated financial operation (Bozeman, 2010).

#### 4.3.1 Understanding municipal responses

Austerity occurs at all levels of government but it is most noticeable and detrimental at the local level (Miller & Hokenstad, 2014). When faced with austerity, a wide variety of responses is available to restore equilibrium. Several authors have tried to categorize these responses. Raudla et al. (2013) make the ‘basic distinction’ between across-the-board cuts and targeted cuts. The first refers to cuts in equal amounts or percentages for all services while the latter implies that some services face a larger cut than others. Pollitt (2010) distinguishes between three approaches: cheese slicing, efficiency gains and centralized priority settings. He suggests that his additional approach, efficiency gains, ‘appears to be politically and organizationally the most desirable way to make savings’. However, Pollitt points out, efficiency gains require organizational reform and upheaval, while the predicted gain is disputable.

This chapter adopts the categorization that is developed and tested at the local level by Overmans & Noordegraaf (2014). On the basis of an extensive literature review the authors have developed a classification of responses based on two underlying dimensions. The first dimension considers austerity measures either as (a) fiscal or (b) organizational. (a) Fiscal measures focus directly on balancing the fiscal budget; reducing deficits is the main objective. For instance, ‘lowering service expenditure’

directly closes a gap in next year's budget and limits managerial budgetary autonomy. However, unsubstantiated fiscal measures cannot be deployed indefinitely without affecting the level of public services or performance. On the other hand, (b) organizational measures focus primarily on organizational structures and systems. Organizational activity and performance are the main objectives; reducing deficits is an indirect result. For instance, 'decentralizing youth care' is principally used to improve the performance level, but –especially in periods of austerity– it is also aimed at reducing the level of expenditure.

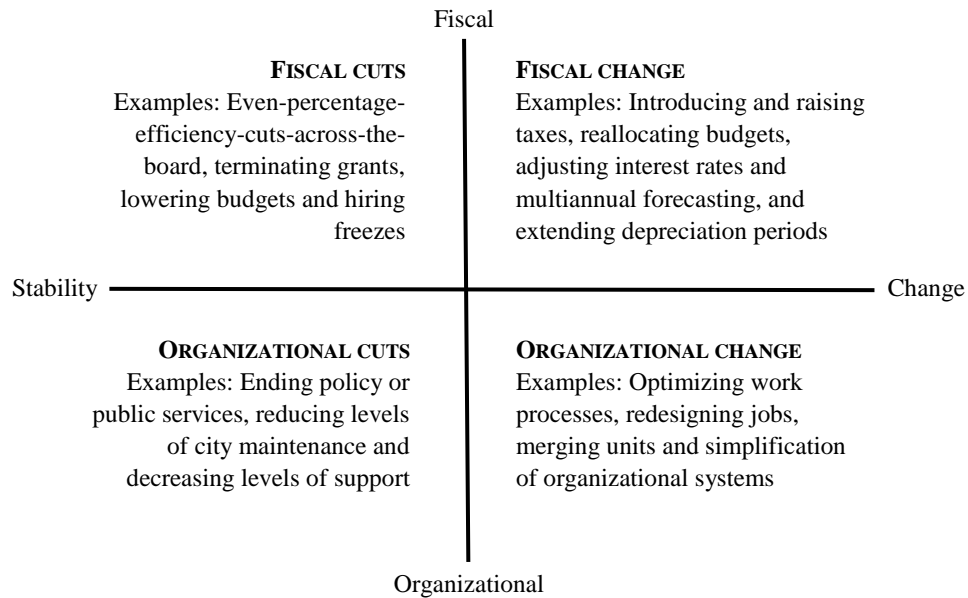
The second dimension argues that austerity measures focus either on (c) stability or (d) change. (c) Stability measures are predominantly aimed at the superficial reduction of activity and budgets; lowering the level of expenditure is the main objective. Often stability measures can be reversed in times of prosperity. For instance, 'reducing the level of city maintenance' results in the short-term reduction of expenses, but will likely be reversed in times of economic windfall. Stability measures accept the status quo and make little or no contribution to the preservation or improvement of public value. (d) Change measures on the other hand, are proactive, targeted and aimed at the long-term viability of an organization. Re-strategizing and improving performance are the main objectives; reducing (slack) activity and expenditure are indirect results. For instance, 'optimizing work processes' is about the elimination of waste and cost-reduction, but its customer-centric methodology also emphasizes higher levels of performance and customer value.

By combining the two dimensions into a two-by-two table, four austerity strategies become apparent: organizational cuts, fiscal cuts, fiscal changes and organizational changes (see figure 4.2). Because austerity responses are often ambiguous and politically framed in the debate, we stress that the selected classification should be considered as a continuum rather than as completely separate categories.

#### 4.4 Research design

This chapter aims at clarifying the relationships between the politico-administrative system as an independent variable and the nature of austerity plans as the dependent variable. In line with the framework (see figure 4.1), this required a research setting with (a) minimum variety for the 'socio-economic forces', (b) maximum variety for the 'politico-administrative system', and (c) detailed information about deployed austerity measures in municipalities. (a) In order to select municipalities with compa-

**Figure 4.2 Responses to austerity (Overmans & Noordegraaf, 2014)**



able exogenous circumstances, data was required on the socio-economic context of potential cases. This was done using the typology of city-types developed by Bogumil & Strohmeier (2012b). Municipalities were clustered into specific city-types on the basis of multiple socio-economic and demographic dimensions – such as purchasing power, poverty rate, unemployment rate, characterization of population and demographic forecasts. By selecting municipalities from similar cluster-types, the socio-economic differences were minimized. (b) In order to maximize politico-administrative variety a cross-national study was conducted in two countries where municipalities differ on almost all the key features. (c) Transparency and the availability of verifiable information about local austerity measures were crucial to classify the nature of municipal austerity plans.

#### 4.4.1 Data gathering

In order to understand to what extent austerity solutions are shaped by the politico-administrative system, we first had to identify the specific responses of municipalities. To uncover municipal responses, all austerity measures deployed in the selected municipalities between 2010 and 2012 were gathered, analyzed and classified by two researchers with extensive practitioner-backgrounds in municipal austerity management. Here, austerity measures are interpreted to be deficit-reducing responses made explicit in the municipal's budget book or aggregated into one or more austerity plans. In The Netherlands, austerity measures were analyzed by a Dutch native speaker. Likewise, measures in NRW were analyzed by a German native speaker.

In order to be as precise as possible, qualitative evidence (describing individual measures) and quantitative evidence (values, year of implementation) were gathered for each measure. Two questions were asked in order to code responses qualitatively (Overmans & Noordegraaf, 2014:103). First, is the response predominantly aimed at stability or change? Second, is the response primarily fiscal-oriented or organization-oriented? The researchers labeled all measures as organizational cuts, fiscal cuts, fiscal change or organizational change. Whenever individual measures were ambiguous or consisted of diverse elements, measures were divided before labeling. Finally, to assure the quality of the classification process a random cross-check was performed afterwards and individual results were discussed with public officials of the municipality concerned (city manager and financial controller).

Measures refer to intended measures agreed in the decision making process. All measures were quantitatively rated on the basis of their monetary contribution. The relative value of each measure was determined for two moments in time. First, the contribution to the following fiscal year ( $t+1$ , whereas  $t$  = moment of decision). Second, the relative value was determined for the long run. Long-term prognoses vary between  $t+4$  in The Netherlands and  $t+9$  in NRW. The purpose of using two measurements is to illustrate how municipal responses develop over a period of time.

#### 4.4.2 Case design and selection

The in-depth investigation of austerity plans was conducted in five Dutch municipalities and five municipalities in North Rhine-Westphalia (NRW). This relatively small sample means that we cannot make sweeping generalizations. In order to select appropriate municipalities a pre-selection of twenty potential cases ( $2 \times 10$ ) was made. Initial criteria for inclusion were size (more than 100.000 inhabitants),



fiscal crisis severity (budgetary cuts  $\geq 5\%$ ) and the availability of complete, detailed and verifiable information about austerity measures. All municipalities in the pre-selection were clustered following the Bogumil & Strohmeier-typology (2012b). Since not all variables were available or specifiable for the local level in The Netherlands, the Dutch clustering is based on a smaller number of variables. However, we managed to assemble eleven of sixteen variables within all of the five central dimensions. Therefore, we think the results are trustworthy. The final sample of municipalities – with most similar socio-economic forces – contains five municipalities in cluster two, three municipalities in cluster three and two municipalities in cluster five (see table 4.1).

Whereas the socio-economic forces had to be most similar, municipalities had to be most dissimilar with respect to the politico-administrative system. Therefore, this study compares municipal austerity plans in The Netherlands and North Rhine-Westphalia (NRW). Although The Netherlands is an independent country and NRW is one of the sixteen Länder in the Federal Republic of Germany, we think a comparison is legitimate. Both states are highly autonomous as regards decision making and shaping policies. Also, public services provided at the local level are more or less comparable (cf. Leisink & Bach, 2014). Both are similar in size, densely populated with just over 17 million people, have a GDP of around €600 million and contain around 400 municipalities.

Dutch and NRW municipalities differ on four key variables (see table 4.2). First, Dutch and NRW municipalities differ in their degree of control over local finances. In NRW, forty per cent of the total budget comes from local taxes. Twenty five per cent is available for discretionary services. In The Netherlands, a third of the budget is collected by the city. However, only eight per cent is available for discretionary services. Second, austerity plans are developed under different austerity conventions.

Dutch cities have a high degree of local ownership and the development of responses is commonly initiated by the municipality itself. In NRW, responses are developed under joint ownership. The trajectory is frequently initiated and in a certain degree defined by the municipal supervisory authority (*Kommunalaufsicht*) and the austerity plan needs to be approved by this authority. Third, the administrative culture differs. Although both countries are considered Rechtsstaat regimes, there is some variety between Dutch and German bureaucracies. Originally, Dutch bureaucracies were very legalistic, but there have been many changes toward a more pluralistic and consensual culture (Pollitt & Bouckaert, 2011). This shift has not occurred in NRW

cities. Although the culture and the world of German municipalities have changed, there has been no shift to a managerial administration and municipalities manifest a significant institutional continuity (Kuhlmann et al., 2008). It is said that the *Juristenmonopol* still exists in German municipalities (Reichard, 2003).

**Table 4.1 Characteristics of selected municipalities**

	Cluster <sup>*</sup>	Inh. (x1.000)	Deficit (m€)	Deficit (€/capit a)	Deficit (% total budget)	Debt (€/capit a)**	Tax base (%)
NL1	3	220	50	227	7	1,877	7,4
NL2	2	110	42	382	12	3,135	8,3
NL3	2	160	34	213	6	3,485	6,5
NL4	5	170	52	315	7	4,333	10,3
NL5	3	120	22	176	5	3,310	9,9
Aver.			40	263	7,3	3,228	8,5
NRW1	2	120	29	239	8	1,282	24,5
NRW2	2	270	80	293	9	1,971	29,9
NRW3	2	170	45	264	10	1,294	31,2
NRW4	5	160	24	146	5	1,614	22,3
NRW5	3	165	60	366	12	1,339	21,0
Aver.			47	262	8,8	1,500	25,7

\* cf. Bogumil & Strohmeier (2012b) \*\* ne debt, without liquidity loans, ult. 2012

Cluster 2: Core cities, major/mid-sized centers of region. High level of social problems. Tendency of shrinking and obsolescence

Cluster 3: Core cities, major/mid-sized centers of region. High workplace/educational centrality. Tendency of shrinking and obsolescence

Cluster 5: Core cities, major/mid-sized centers of region. Heterogeneous living conditions of different population groups. High unemployment rates

Fourth, the sources of austerity ideas differ. Dutch cities are relatively open organizations. They are populated with career servants, but also influenced by many external consultants and scientists who contribute enthusiastically to policy making in general (Pollitt & Bouckaert, 2011). In recent years, municipalities have significantly decreased their hiring of external consultants and managers. However, many local officials have had no experience with managing austerity. The influence of external consultants has remained high, both in facing up to the challenge and in introducing new concepts and ideas. Furthermore, progressive ideas were developed and shared in the Dutch network for innovative austerity management (*Netwerk*

*Vernieuwend Bezuinigen*) which consisted of practitioners, academics and consultants. Austerity measures in NRW cities have mainly been developed within the public sector, rather than by private sector managers and gurus. At the local level, management reforms are commonly developed and promoted by joint government agencies such as the *Kommunale Gemeinschaftsstelle für Verwaltungsvereinfachung* (KGSt) or through consultation with and audits by the *Gemeindeprüfungsanstalt* NRW (Local Audit Commission). Although there was some input from academics and external consultants, their influence was relatively small.

#### 4.4.3 Austerity context

Both the Netherlands and Germany have had to cope with the effects of the financial crisis, initially by saving and supporting national banks and then, later, taking economic recovery measures to deal with the subsequent economic crisis. Finally, the fiscal crisis and state debts caused governments to take fiscal cutback measures (for an overview of national responses in both countries, see Kickert, 2012). The effects of the crisis took more time to be noticeable at the local level, but municipalities are now dealing with serious levels of fiscal stress.

In the Netherlands, the local austerity challenge is mainly driven by two factors. First, municipalities are responsible for implementing part of the national public sector reform agenda. Although undisputed numbers are not available, the Dutch Association of Municipalities (VNG) estimated that municipalities account for seven per cent of all government expenditure cuts required, around €4 billion. Furthermore, declining land prices and real estate prices, along with increased demands for public services, have led to serious budgetary deficits in many municipalities. On average, Dutch municipalities were facing a fiscal deficit of seven per cent of the total budget between 2010 and 2012, or €263 per capita (see table 4.1).

NRW municipalities are also facing austerity, mainly driven by three factors. First, similarly to their Dutch counterparts, NRW municipalities are responsible for implementing a part of the reforms imposed by higher levels of government (Bogumil & Holtkamp, 2013). For instance, decentralizing the provision of kindergarten to three-year-olds, without corresponding provision of adequate budgets, generates a deficit of over €1 billion at the local level. Second, environmental factors are shaping the local challenge. Fluctuating regional economic circumstances and interest rates affect the level of incomes, while demographic structure and development affect the

**Table 4.2 Key politico-administrative features**

	<b>Netherlands</b>	<b>North Rhine-Westphalia</b>
Financial autonomy*	<i>Low degree of control over local finances.</i> Municipalities are highly dependent on transfers from the state and have limited options for expanding their local revenue base. Tax base for discretionary services: 8%.	<i>High degree of control over local finances.</i> Municipalities are less dependent on transfers from the state and have a significant revenue base from local taxes. Tax base for discretionary services: 25%.
Austerity conventions	<i>Local ownership.</i> Trajectory commonly initiated by council or aldermen. Potential measures prepared by officials under coordination of one alderman. Board of aldermen approves template before discussion in council. Final austerity plan discussed in committees and decided by majority in council.	<i>Joint ownership.</i> Trajectory frequently initiated and in a certain degree defined by municipal supervisory authority ( <i>Kommunalaufsicht</i> ). Potential measures prepared by (finance) departments or temporary task force, using a template developed by mayor and treasurer. Final austerity plan discussed in committees and decided by majority in council and approved by the supervisory authority.
Aldermen-mandarin relations	<i>Separate, fairly politicized.</i> Executives are responsible for austerity responses. Officials led by city manager. Mandarins considered as <i>agents</i> , enjoy strong tenure.	<i>Separate, fairly politicized.</i> Executives are responsible for austerity responses. Aldermen and officials led by mayor. Distinctions between specialized and regulatory politicians. Mandarins considered as <i>agents</i> , enjoy strong tenure.
Administrative culture	<i>Modern Rechtsstaat regime.</i> Originally very legalistic, but has changed to pluralistic and consensual.	<i>Traditional Rechtsstaat regime.</i> Enforcement of law, instinctive bureaucratic stance – one of rule-following and precedent.
Sources of austerity ideas	<i>Competing.</i> Austerity policies fueled by a broad mixture of ideas from public officials, external consultants, academics and other experts.	<i>Homogenous.</i> Public sector main channel for austerity policies. Mostly joint government agencies; with a few academics and external consultants

\* Data obtained from municipalities in this study (averages)

level of expenditure (Bogumil & Holtkamp, 2013). Third, actor-related factors have a significant influence. For instance, partisan influence on local policy making and decision-making are typical in NRW (Boettcher, 2012;Timm-Arnold, 2011). On average, NRW municipalities were facing a fiscal deficit of almost nine per cent of the total budget between 2010 and 2012, or €262 per capita.

Practitioner experience in The Netherlands and NRW suggests that there are different approaches to austerity. Generally, leaders in many Dutch municipalities are seizing the crisis as an opportunity for reforms. Conversely, in NRW municipalities leaders regard the challenge mainly as a temporary catastrophe and are choosing to tackle it through fiscal discipline and stability. It seems reasonable that the preferred measures in each country should depend on these underlying approaches. However, some authors suggest that municipalities deploy similar measures in dissimilar settings (e.g. Levine et al., 1981; Raudla et al., 2013).

#### 4.5 Results

Superficially, responses in Dutch and NRW municipalities indeed show some similarities – their austerity plans appear to contain identical measures in both countries. For example, measures such as ‘lowering expenditure levels for maintenance’ and ‘increasing charges for services’ were deployed by all municipalities in the sample. However, our in-depth analysis demonstrates a richer pattern of distinctions. In total, we analyzed 1128 austerity measures derived from five Dutch and five NRW municipalities (see table 4.3).

##### 4.5.1 Large variety between states and within states

In line with the findings of Overmans & Noordegraaf (2014), we find substantial variation in response to austerity. Firstly, there is large variety between both states. The five Dutch municipalities tend to use all four strategies, whereas NRW cities tend to focus on two strategies. Considering the long-term average, the less favorable strategy in Dutch cities –fiscal change– still contributes nearly twenty per cent to the restoration of fiscal balance. The most favorable strategy – organizational cuts – contributes around thirty per cent. The five NRW municipalities however, focus on fiscal change and fiscal cuts. More than half of the challenge is tackled only through fiscal changes. Another thirty per cent is tackled through straight fiscal cuts like ‘lowering the energy budget by €100,000’ or ‘cheese slicing the grants for cultural organizations’. Organizational cuts and organizational changes are significantly less evident in NRW.

**Table 4.3 Austerity responses in five Dutch and five NRW municipalities**

	Number of measures (#)				Contribution of measures (%) <i>Short-term</i>				Contribution of measures (%) <i>Long-term</i>			
	OR-CU	FI-CU	FI-CH	OR-CH	OR-CU	FI-CU	FI-CH	OR-CH	OR-CU	FI-CU	FI-CH	OR-CH
NL1	45	15	16	23	37	8	29	25	37	16	13	34
NL2	59	49	64	46	16	41	34	8	31	24	25	19
NL3	37	29	30	53	31	5	40	24	29	17	27	27
NL4	68	44	43	28	23	20	46	12	35	22	28	15
NL5	20	59	16	24	27	28	9	36	22	36	6	36
<i>Total</i>	<i>229</i>	<i>196</i>	<i>169</i>	<i>174</i>								
<i>Average</i>					<i>26.7</i>	<i>20.6</i>	<i>31.7</i>	<i>21.0</i>	<i>30.8</i>	<i>23.1</i>	<i>19.7</i>	<i>26.4</i>
<i>SD</i>					<i>8.0</i>	<i>14.6</i>	<i>14.3</i>	<i>11.1</i>	<i>5.9</i>	<i>8.1</i>	<i>10.0</i>	<i>9.1</i>
NRW1	23	122	56	24	2	39	56	2	14	38	41	7
NRW2	6	5	13	4	27	16	44	13	28	18	48	6
NRW3	5	21	10	7	1	60	37	2	2	38	55	4
NRW4	0	4	12	0	0	32	68	0	0	15	85	0
NRW5	7	14	13	14	6	42	33	19	13	32	37	19
<i>Total</i>	<i>41</i>	<i>166</i>	<i>104</i>	<i>49</i>								
<i>Average</i>					<i>7.2</i>	<i>37.8</i>	<i>47.6</i>	<i>7.2</i>	<i>11.4</i>	<i>28.2</i>	<i>53.2</i>	<i>7.2</i>
<i>SD</i>					<i>11.3</i>	<i>16.0</i>	<i>14.4</i>	<i>8.3</i>	<i>11.2</i>	<i>11.0</i>	<i>19.1</i>	<i>7.1</i>

Secondly, we find evidence of variation in response to austerity within both states. An average austerity plan in the Netherlands consist for twenty per cent of fiscal changes. However, some municipalities put more focus on this strategy (e.g. NL4) while some prefer other strategies (e.g. NL5). This variation in deployed strategies is largest in NRW. In the short-term, we find comparable variation in both states, with comparable standard deviations. Looking at the long-term plans, however, the variation decreases considerably in the Netherlands, whereas the deviations between NRW cities remain the same. This convergence indicates a pattern of isomorphism in which the Dutch municipalities in this sample become more alike over the period of four years.

#### 4.5.2 Diverging natures of austerity plans

Despite the evident variations, a distinction can be made between Dutch austerity plans and NRW austerity plans. To put it bluntly for this sample: Dutch plans focus on organizational reforms and the expenditure side; NRW plans are fiscal-oriented and focus on the revenue side (figure 4.3). Together, organizational cuts and

organizational changes account for fifty-seven per cent of the Dutch municipal austerity plans. Within the organizational strategies, there is a predominance of organizational cuts. Nevertheless, organizational changes contribute considerably to the long-term restoration of the balance. The Dutch preference of cutting expenditure over increasing taxes is comparable to previous findings in local government (e.g. Dunsire & Hood, 1989; Krueathep, 2013; Asenova et al., 2014).

On the other hand, the data show a very strong fiscal orientation in the austerity plans which we studied in NRW cities. Eighty-one per cent of all measures were classified as fiscal cuts or fiscal change. There is a strong prevalence of fiscal changes, at more than fifty per cent. While the scope of this strategy is wider, there is a strong focus on the revenue side in NRW cities. Among many others, measures as ‘introducing a tax for dog owners’ or ‘asking higher fees for the use of school buildings’ were deployed commonly in the NRW municipalities studied.

#### 4.6 Analysis

In this section we return to the question initially posed as to whether the politico-administrative system matters or not, when coping with austerity. Relating the austerity plans to our conceptual framework and comparing them across countries, multiple influences become apparent. For example, our expectation that sharing-the-pain-strategies were more likely in ‘locally owned’ practices was supported by the data. Dutch municipalities in this sample divide the pain over four strategies, whereas NRW municipalities focus on just two strategies. Also, it was predicted that a broader mixture of austerity ideas would result in the use of a wider range of strategies in Dutch municipalities. Again, this fits with the results. However, two important relationships need further explanation.

##### 4.6.1 Degree of control over finances empowers cutting or charging

Our findings display an evident discrepancy between municipal austerity plans. Whereas the Dutch municipalities studied aim to restore the fiscal balance indirectly by reforming and reducing organizational activity, the NRW cities deploy straightforwardly fiscal measures, mostly on the revenue side. From a politico-administrative perspective, this might be explained by the degree of discretionary power over municipal finances. NRW municipalities – which are highly autonomous over their finances (see table 4.1) – seem to use their autonomy to rebalance the budget by increasing the level of incomes from local taxes. Because the local revenue base in NRW municipalities is substantial, a relatively small rise has large budgetary

effects. A comparable restoration of the balance would require extraordinary taxation rises in Dutch cities. As Asenova et al. (2014) argue, this kind of municipality is left no other choice but to manage austerity by ‘means of immediate reductions in their expenditure on employee and operating costs commensurate with the speed and scale of cuts in their grants’. Our findings are congruent with the expectation that a higher use of revenue measures is more likely in municipalities with a high degree of control over local finances, and that a higher use of expenditure measures is more likely in municipalities with a low degree of control over local finances.

#### 4.6.2 Administrative culture stimulates or prevents sweeping reforms

A second relationship relates to the nature of austerity plans and the cultural variables. The sample shows dispersion between the fiscal-oriented plans in NRW and the organizational-reform oriented plans in The Netherlands. We suggest that this dispersion relates to the different administrative cultures in Dutch and NRW municipalities. Our expectation that reforms were more likely in progressive regimes is strongly supported by the results. Organizational change was the second most favored austerity strategy in Dutch municipalities (twenty-six per cent). In NRW on the other hand, this strategy was remarkably unpopular (seven per cent). Based on the findings of this study, one might suggest that the ‘inflexible administrative culture’ has again inhibited a round of public management reforms. The lack of reform might be caused by the fact that officials in German cities are increasingly tired of reforms and perceive the reforms primarily as straight cutback management (Kuhlmann et al 2008).

#### 4.7 Discussion

Previous research has shown that organizations may deploy similar austerity responses in dissimilar settings (e.g. Levine et al., 1981; Raudla et al., 2013). It was interesting to find out whether the environment is so compelling that it more or less automatically results in universal uniformity in austerity plans, despite local differences in preferred approaches or ambitions. Austerity responses are shaped by socio-economic forces and politico-administrative variables. Due to the relative lack of research studies, this chapter focused on the politico-administrative system and its relationship with municipal austerity plans.

In contrast to these aforementioned studies, we show that municipalities deploy dissimilar austerity measures in dissimilar systems. Our findings do not support the concept of ‘universal’ austerity plans. Instead, they indicate a relation between the



institutional system and the deployed responses. Although we recognize many similarities on the surface, an in-depth analysis of municipal austerity plans shows substantial variation. Acknowledging the limited scope of our sample, we tentatively introduce two politico-administrative features which we suggest influence austerity plans: financial autonomy and administrative culture. First, we have shown that the degree of discretionary power over local finances affects the focus of austerity plans. In line with other work (e.g. Asenova et al., 2014; Krueathep, 2013) we suggest that the stronger focus on the revenue-side in NRW cities correlates with the higher degree of control over local finances. Second, we identify the influence of the administrative culture on the nature of austerity plans. Consistent with previous findings (e.g. Pollitt & Dan, 2011; Reichard, 2003), we have shown that the traditional Rechtsstaat culture has inhibited sweeping reforms in NRW municipalities.

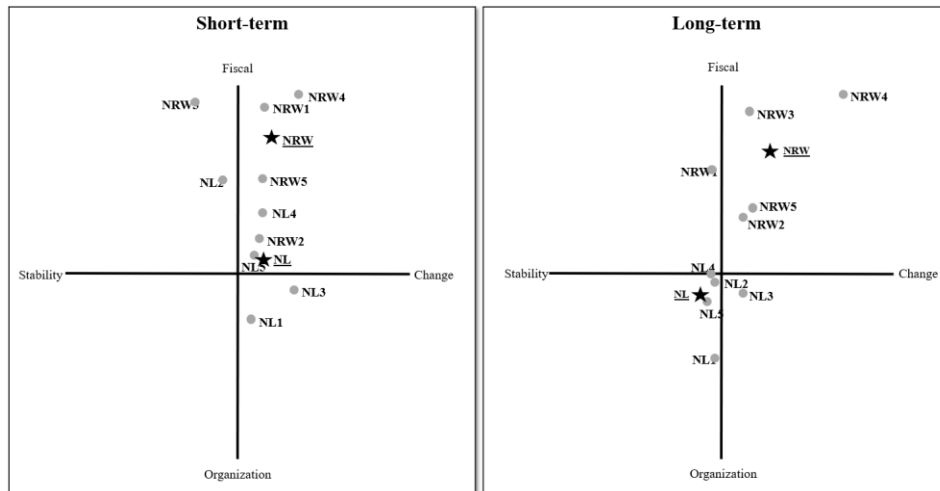
However, there are some drawbacks. First, our conceptual framework theorizes that austerity plans are the results of an elite decision-making process that is shaped by socio-economic forces and politico-administrative variables. Although we have attempted to eliminate the effects of socio-economic forces, we cannot not guarantee that these had no effect at all. Especially when making comparisons across countries, differences may occur without being noticed. Second, this study focuses solely on the politic-administrative system, especially on the five key variables proposed by Pollitt & Bouckaert (2011). In retrospect, we think that future studies might consider other relevant austerity features, such as the role of local stakeholders, partisan influence, and social dialogue with unions. Also, future research should focus on the political aspects of the decision-making process as intervening variables.

#### 4.8 Conclusion

The aim of this chapter was to show how municipalities respond to austerity and to clarify the relationships between the politico-administrative system and responses to austerity. An in-depth analysis of ten municipal austerity plans shows a wide variety between Dutch and NRW cities. Although this might seem counter-intuitive, the data show that Dutch municipalities focus on organizational reforms and the expenditure side, while NRW municipalities focus on fiscal measures and the revenue side. It is suggested in this article that this varied response is predominantly explained by two politico-administrative features: financial autonomy and administrative culture. Traditionally, institutional features are considered as static elements which inhibit exogenous reforms (Schmidt, 2010). From this perspective, interventions from agile public managers are required to break away from this organizational continuity and

to realize reforms. This chapter suggests, however, that the politico-administrative system matters when coping with austerity. In finding the perfect fit between what is desirable and what is feasible, the latter is shaped by institutional characteristics. However, the system must not be considered as an unchanging constant, to which every reform must adapt itself or fail (Pollitt & Bouckaert, 2011). In order to enlarge the scope of feasible responses to austerity, the institutional system has to be rediscovered and rebuilt (cf. Schmidt, 2014).

**Figure 4.3 Nature of austerity plans in the Netherlands and North Rhine-Westphalia**





# 5

Producing innovation: turning decisions  
into reality



**Abstract**

In chapter 5, I uncover the determinants of the successful implementation of austerity-driven change. I describe and interpret the apparently successful implementation in a big Dutch municipality and relate it to eight determinants of successful organizational change. The study is built around a single case study approach to record the circumstances, strategies, and motivations to create a ‘thick description’ that characterizes this particular case. It relies on the experiences of 65 coworkers that were involved. Supplemental data were sought from more than hundred formal and informal documents about the change event. The main finding is that not all generic determinants of successful change were fulfilled and that three alternative catalysts were crucial for change implementation during austerity. I call them the ‘acts of implementation’. I tentatively argue that implementers who operate in the context of austerity should (a) accept and use political interference, (b) anticipate resistance to change, and (c) accentuate multiple aspects of success. The chapter sheds a more nuanced light on the organizational change literature and makes the acts of implementation meaningful for a wider public. Successful implementation of austerity-driven changes seems not so much a matter of complying with generic success conditions, but of crafting acts that fit with the specific context.

Chapter 5 is *under review*.



## 5. Producing innovation: Turning decisions into reality

### 5.1 Introduction

Dutch municipalities have been dealing with austerity since 2010. Despite the spectrum of strategies to reduce budget deficits, organizational change (OC) is often proposed as solution to run municipalities better and cheaper. Investing in OC when there is no budget, however, is difficult (Shafritz et al., 2017). It is accepted that change implementation during austerity is hard because there are no budgets to lubricate reforms, or to buy off objectors with alternative positions or compensations (Pollitt, 2010). The fixation on ‘short-term gapmanship’ (Schick, 1980) is likely to put the focus on quick-wins rather than on transformational change, although it is in fact this type of change that could contribute to the municipalities’ long-term financial sustainability (Cepiku & Savignon, 2012).

Recently, however, a methodologically rigorous evaluation study showed that the City of Alexandria (*anonymized case*) was rather successful in implementing change while dealing with austerity. Certainly, the judgment of success depends on how success is defined but the municipality’s leadership has put much effort in the development of a broad set of criteria, prior to the implementation. In cooperation with the employees’ council, 64 criteria were formulated allowing the researchers to evaluate the effectiveness. The concerning evaluation states that reforms have been realized on most of the criteria, in a time frame of two years.

The contradiction between theoretical notions (it is near impossible!) and empirical evidence (it has happened!) merits further investigation. Informed by the literatures on OC and austerity this chapter describes and interprets the implementation practice in Alexandria. We record the circumstances, strategies and motivations, and relate our findings to the eight conditions of successful change (Fernandez and Rainey, 2006). We expect that the implementation in Alexandria was successful because the implementers have managed to comply with the determinants. This produced the following explorative research questions:

*What explains the successful implementation of OC during austerity in the City of Alexandria? Does the implementation comply with the eight generic conditions for successful OC, or do alternative conditions explain success?*

A ‘thick description’ (cf. Ponterotto, 2006) offers the required closeness to develop a nuanced view of the implementation. This allows us to examine the relevance of the



success conditions. It also allows us to analyze what alternative conditions, linked to activities and behavior, have been decisive for the success. Both analyses enable theory building, as the results provide us with knowledge to specify the conditions of change implementation under austerity.

The chapter begins by introducing the success conditions of OC against the background of austerity. In the third section we explain the design. Section 4 provides a ‘thick description’ of the implementation practice in Alexandrium. In section 5 we interpret the case and explore alternative catalysts for success. The final sections contain the discussion and conclusions.

## 5.2 Organizational change and austerity

The volatile economic conditions, as well as political and public demands for cost-efficiency, have stimulated the attention for OC in the public sector. Due to disconnects between organization science theory and public management theory, practitioners have long been directed to Lewin’s (1951) steps of OC and Kotter’s (1996) conditions for successful business transformation. Recently, a number of theoretical studies have been performed into OC in the public sector (e.g. Kuipers et al., 2014; Schmidt, Groeneveld & Van de Walle, 2017). Despite their interesting insights, most work remains vague about the do’s and don’ts of effective change implementation in public organizations, which can serve as testable propositions for empirical research.

The most prominent work addressing the success conditions of public sector change is by Fernandez & Rainey (2006). Drawing on a review of OC literature, they formulate a compass containing eight determinants that contribute to successful change. As a prelude to the description and interpretation of the Alexandrium case, we discuss each determinant against the background of austerity.

### 1. Ensure the need

Public managers must verify the need for change and persuade employees that OC is necessary. Fernandez & Rainey (2006) recommend that managers begin with crafting a vision of the future organization that provides direction for the change process, is easy to communicate, and serves as a foundation from which change strategies are developed. The value of communication for change under austerity is recognized (e.g. Cayer, 1986). Proper communication helps to clarify the process, demystify decision-making, and explain what the future holds for the organization (Raudla et al., 2015).

Although the need for change will not always be shared by everyone, the necessity and urgency of change will be more evident when the organization is in crisis (Kickert, 2014).

## 2. Provide a plan

Persuading people to change is not enough to realize actual change. Ideas must be converted into a road map with goals and a plan for achieving it. The more specific the plan is in terms of goals, measures, guidelines, and procedures, the more likely it is that employees are to implement it (Porter et al., 1988). A detailed plan allows implementers to judge the effectiveness of their actions, track their progress, and assess how faithfully they are in realizing the proposed changes. Despite the importance and complexity of OC, little time is usually available during austerity (Raudla et al., 2015).

## 3. Build internal support for change and overcome resistance

Committed employees who believe in the reforms are crucial to realize change. Fernandez and Rainey (2006) report that employee participation is the most used strategy to overcome resistance. Participation allows employees to codetermine the future course of the organization and helps them to develop ownership. Kickert (2014), however, finds no evidence of participation and indicates that, in the public sector, employees are only involved during the implementation. Numerous studies show that employee participation is indeed unlikely during austerity. Levine (1985) found that participation indeed reduced general resistance for change, but paradoxically fueled resistance by the biggest losers of the reforms. Managers therefore must find alternative ways to reduce resistance and build external support for change. These might be found in dialogues and personal attention for the needs and worries of coworkers (Van der Voet & Vermeeren, 2016), or inducements and rewards for positive behavior (Levine et al., 1981).

## 4. Ensure top-management support and commitment

Change implementation becomes a much simpler task when top-management is committed and supports the course of action. The difficulty of public organizations, however, is that the idea of one top-management does not exist. Fernandez & Rainey (2006) do recognize this and separate the internal administrative top-management from the external political top-management. In our opinion, however, the identification of political actors as external stakeholders is a poor translation of

Kotter's (1996) business conditions. In public organizations, the highest-ranking official is powerless without the support of the political executives. Change can only be implemented when both the managerial and political executives are committed.

In Dutch municipalities, it is unthinkable that OC is initiated from outside the top-management. Committed leadership refers to the degree of congruence between political and managerial ideas about the future role and organization of the municipality. Political commitment is likely to increase when politicians have a role in crafting an inspiring vision of a value-creating organization, and appointing actors who are sympathetic to the change and have the knowledge and skills to bring it about. Managerial commitment, on the other hand, is likely to increase when managers support the vision and when they are made responsible to design a suitable organization and a road map to realize OC. Continuity in top-management is crucial to implement change without misunderstanding, backpedaling and adjustments in priorities.

#### 5. Build external support

OC impacts many people from inside and outside the organization. Besides gaining support from the employees, managers must develop support from external stakeholders, such as interest groups, unions and employee's councils. The impact of these stakeholders stems from their ability to impose statutory changes or to start social movements opposing the directions of change (Levine et al., 1981). The relationships with such external parties often deteriorate in times of fiscal stress (Cayer, 1986). Implementing change without support of these stakeholders can speed up the process, albeit at the cost of dissatisfaction and criticism (Weissert & Goggin, 2002).

#### 6. Provide resources

The gains of OC are typically preceded by substantial investments. Planned change involves the redeployment or redirection of resources towards a host of change-related activities, such as writing the vision and reorganization plan, communicating the message, training employees, restructuring the organization (Fernandez & Rainey, 2006). A lack of resources is a common barrier to effective implementation (Desimone, 2002). The redirection of budgets in the public sector is always complicated because of the high levels of resource commitment. During austerity, however, acquiring sufficient resources for change is even more difficult because

redundant staff is already let go and scarce budgets can be spent on everything but internal activities.

#### 7. Institutionalize change

Making change enduring requires that reforms are incorporated into the daily organizational routines. Virtually all OC involves modifications in the behavior of employees (Fernandez & Rainey, 2006). Evidence shows that changing culture, routines, and behavior is difficult (e.g. Kavanagh & Ashkanasy, 2006). There are many strategies to stimulate the institutionalization of change, such as adjusting structures, employing rites and ceremonies, testing innovations, and collecting data to track the progress (Armenakis & Bedeian, 1999). The evidence regarding the optimal pace for institutionalizing change is mixed. A slower pace is likely to contribute to the gradual adoption of change, but runs the risk of missing momentum when the leadership turns over (Kavanagh & Ashkanasy, 2006). Faster pace will be helpful to overcome inertia, but generates dissatisfaction and decreases morale (Tushman & Romanelli, 1985).

#### 8. Pursue comprehensive change

Finally, the chances of successful OC will increase if change is pursued at all organizational levels. To achieve subsystem congruence, managers must develop a comprehensive approach to change. This means that change activities at all levels of the organization must be aligned with the overarching goals. The whole organization has to be considered, as reforming only a small number of organizational divisions will not generate the desired transformation (Fernandez & Rainey, 2006).

Although many academics and practitioners might see these determinants as obvious elements of OC, research shows that they are often overlooked or underestimated (Kotter, 1996). We expect that the implementation in Alexandrium was successful because the municipality has managed to comply with all of the eight determinants.

### 5.3 Research design

#### 5.3.1 Study setting

We used a case study approach to create a ‘thick description’ and interpretation of change implementation during austerity. Setting of the study is the City of Alexandrium, one of the largest municipalities in the Netherlands. Alexandrium has

more than 200,000 inhabitants and over 10,000 employees. The municipality has been coping with extreme budget shortfalls between 2009 and 2016. Austerity, however, was accompanied by other major challenges such as the abolishment of boroughs, the decentralization of national tasks without corresponding budgets, and a political turnaround.

We selected Alexandrium for two reasons. First, because the case embodies a contemporary municipality with an exceptional drive to overcome the GFC with OC. In 2012, the City Council approved an ambitious set of austerity policies. The vast majority of savings – covering more than €100M – had to be realized with sweeping reforms, such as the merger of many independent divisions and a handful of boroughs into one authority or the reduction of management and policymakers. OC was considered as the ultimate answer to terminate similar task execution within different units, endless expansion of the organization, disorganized provision of customer services, and excessive focus on procedures and bureaucracy.

Second, Alexandrium is chosen because empirical evidence confirms that the city has been successful in the swift implementation of quite radical reforms while dealing with austerity. Drawing on rigorous fact-checking, the researchers conclude that almost all of the preconceived success criteria have been realized. This included, for instance, the achievement of the required cuts, the implementation of new organizational structures and IT systems, the adjustment of procedures, and the harmonization of contact centers across the city. Following Fernandez and Rainey's (2006) success conditions, Alexandrium is conceived as a critical case in the following matter: if compliance with the eight determinants of OC leads to successful implementation of innovative austerity measures in one of the most complex cities of the Netherlands, then most likely, it would lead to successful implementation anywhere, at least in the Netherlands.

### 5.3.2 Data sources

Data are collected from three categories of sources, allowing triangulation and increasing the internal validity of the empirical material. First, the study draws on the personal experiences of 65 employees. The interviews provided us with detailed information about their efforts to implement OC in the wake of the GFC. The interviews were organized, planned and conducted by the authors, along with six other researchers. Detailed recordings allowed a rigorous analysis. Second, we have analyzed a wide variety of formal documents which included budgets, strategic

business plans, audit reports, and austerity policies. Thirdly, interviews and accounts have been complemented with internal documents that were prepared, for instance, to coordinate change implementation.

### 5.3.3 Data analysis

In line with the aim of this chapter, we collected empirical data regarding the eight conditions. Interviews provide evidence about the employees' perceptions of how reality has lived up to the theoretical success conditions, while documents are used to examine the formal aims and results of the implementation. We record the circumstances, strategies, and motivations to create a thick description that characterizes this particular case of change implementation during austerity. Subsequently, we provide a first interpretation of the episode and explore alternative catalysts for success.

## 5.4 Implementing change during austerity: the case of Alexandrium

### 1. Ensuring the need

The City of Alexandrium has been dealing with an unprecedented fiscal crisis since 2009. A combination of declining revenues and increasing demands for services generated a major shortfall. Because little could be done to generate extra income through council taxes, the leadership decided to drastically reform the municipal administration. Alexandrium invested seriously in convincing the employees of the need for change. Initially, by crafting a comprehensive Organizational Change Plan in 2013. The OCP clarified the need for change, the preconditions for the future organization, the new organizational 'main structure' and steering model. Subsequent, a mission statement was developed. This compass identified the crucial aspects of the change, as well as the guiding principles for future action by politicians, management and employees.

Both documents served as the foundation for a communication strategy which was aimed at informing employees about the change, but also at gaining support for it and realizing the desired culture (Alexandrium, 2014a). Twelve instruments were developed for this purpose, among others, a corporate story, weekly newsletters from the city manager, meetings for top and middle-management and an animated movie (Alexandrium 2014b).

“We invested immensely in the story of organizational change. Why are we doing this? That was really well managed. A complete road show.” (Member of the change team)

The communication efforts helped in terms of persuading the employees about the need for change. Tolerating the need for change, however, is different from sharing the ideas of the future organization. The interviews confirm that a vast majority of employees agreed with the idea that reforms were needed (e.g. respondents 7, 8, 23, 24, 35, 48; see also Alexandrium 2014b). A midterm review, on the other hand, uncovered that even during the implementation “people still yearn for a clear and inspiring framework and a more persistent coordination of the process” (Alexandrium, 2014f:6). The evidence from Alexandrium displays a difference between ‘understanding’ and ‘internalizing’ the need for change (cf. Kotter, 2002).

## 2. Providing a plan

Throughout the years a number of cascading plans have been developed to guide the implementation. Besides the need for change and an image of the future organization, the OCP contained an outline of the trajectory. The contents of the OCP were first translated into a formal reorganization plan which was a legal requirement. The plan contained a detailed description of the future organization and the legal consequences for the employees. Furthermore, six transition plans were developed. These plans specified the aims, structure and culture of the future organizational subsystems, and provided information about the implementation in terms of planning time, milestones, risks, and change-related activities. All transition plans comply with the financial preconditions, and budgetary reductions are incorporated. The transition plans formed the actual point of departure for the implementation.

There can be no doubt that plans were available to guide the implementation. This does not mean however, that all employees supported the proposed course of action. Similar to the presence of multiple ideas about the future, also different ideas of how to implement change existed. Some respondents, for instance, questioned the comprehensiveness of the OC and suggested that it would have been better if the implementation was divided into pieces (2). Others opposed the revolutionary approach and instead proposed the idea of gradual steps (48, 52). A larger group of respondents experienced difficulties with the implementation pace. One of the key challenges here seems gaining sufficient time to prepare and implement the OC that generates the desired savings. Many respondents (e.g. 7, 14, 17, 22, 25, 40), however,

suggest that change had to be realized under enormous time pressure. These impressions are supported by the results of the midterm review, which stated that pace was more important than thoroughness (Alexandrium, 2014f).

### 3. Building support and overcoming resistance

It is accepted that developing employee support is a crucial component of successful change. We have found no convincing evidence of attempts to involve employees in the determination of goals, course of action, time path and intended results of the OC. Although 60 per cent of the employees wished to be involved, a dialogue was missing (Alexandrium, 2013b:15). The midterm review supports the impression of the respondents that the lack of participation affected the level of buy-in among employees in a negative sense (Alexandrium, 2014f). Interestingly, the case presents little evidence for alternative strategies to build support, such as personal attention for the needs and worries of employees, or the celebration of successes. As one top manager expressed:

“Celebrating successes is very difficult. What counts as success is not likely to be the same for everybody. In the context of austerity, one’s victory is often another’s loss.” (Top manager)

Rather than investing in the development and nurturing of support, the leadership consciously chose to implement the OC top-down. The implementation had a strong uniform character and was driven by blueprints, templates, procedures, structures, targets, and deadlines (Alexandrium, 2014f). There was limited room for employees to react to the central plan, to develop their own course of action, or to implement changes in a different time frame. Respondents described it as a ‘big bang’ that strongly focused on the delivery of immediate results (1, 10, 11, 18, 19). The forceful top-down approach indicates that realizing quick-wins was more important than winning the hearts and minds of the involved people.

### 4. Ensuring top-management support and commitment

Alexandrium presents an interesting case because the top-management that was involved in the implementation had no track record in the particular city. The city manager was appointed in 2012 to lead the biggest reorganization ever executed in the municipality. According to one top-manager:



“The new city manager was ordered to break things down. We really needed his power to bring about the desired changes.” (Top manager)

In order to overcome the ‘Alexandrium disease of making plans rather than getting things done’ (23), the city manager launched a high-pace and results-oriented implementation plan. The top-down approach marked a major turn-around for most of the management and employees (18), who were used to the practice that everyone could have a say about everything – even when they had nothing to do with a specific issue (Alexandrium, 2016b). The elections of 2014 caused another revolution. Just like the city manager, the incoming Council of Mayor and Aldermen (CMA) was radically different than its predecessor, in terms of political composition and infiltration into the organization.

The empirical evidence indicates that both the political and administrative top-management was committed to the reforms. Although we must acknowledge that the lion’s share of the OC has been developed by the previous CMA, the incoming politicians supported the stipulated direction (10, 23). They formally approved the reorganization plan and took public and political responsibility for the reforms. Although the city manager and his top-management supported the direction and the course of action (5, 22, 23), this was not the case for the directors directly below the top-management. Both the political and the managerial top-management remained in office throughout the implementation; something that has most likely contributed to the implementation outcomes.

#### 5. Building external support

External players, such as interest groups and unions, have an important role in public sector change. In Alexandrium, the employees’ council was a major stakeholder. In order to proceed with the implementation, agreement was needed with the employees’ council about a social plan. The evidence confirms the expectations that the relationships between the management and the employees’ council deteriorate during austerity and that the council was not inclined to cooperate with the OC. We find little evidence that building and nurturing a prosperous relationship was as important as keeping things moving. Although ultimately, an agreement was reached with the employees’ council, the road towards it was long and hard (50, 53). It involved a lawsuit and at some moment the council withdrew their trust in the city manager. But the parties sought mediation and the poor relationship was recovered.

## 6. Providing resources

We expected that gaining sufficient resources for OC during austerity was difficult. Evidence shows, however, that the municipality already in an early stage decided to establish a specific *financial reserve* for ‘friction costs’ (Alexandrium, 2012a). The reserve financially backed the costs for laying-off and developing personnel, optimizing processes, and guiding the implementation. Financial statements show that each year around €25 million was withdrawn from this reserve. This supports the idea that financial resources were available to implement the OC. The implementers, however, have experienced this differently (39). The rules for using the reserve were very strict. It had to be shown that the costs originated from the OC and that there was no room to solve it without support. If this was indeed the case, the City Council had to decide whether to allocate the requested budget. In practice, acquiring financial support appeared to be difficult (8).

The provision of resources also concern *human resources*. In Alexandrium, a change team was formed under the supervision of a program manager which directly reported to the city manager. The team coordinated the implementation, judged the effectiveness of activities, and assessed how faithfully the organization was implementing the changes. On the work floor, however, the work pressure seriously increased as the implementation continued (e.g. 8, 14, 18, 31, 53, 58). Many employees were involved in the implementation of OC, while at the same time they were carrying out their regular jobs. Respondents present an image of a shop that was open while under construction. Evidence suggests that the additional work, along with the accumulation and pace, affected the morale of many employees (Alexandrium, 2014f).

## 7. Institutionalizing change

To make change enduring, managers and employees must incorporate the innovations into their daily routines. Although change implementation is difficult, there are a number of ways to stimulate the embedding of change. Many of the strategies were found that Armenakis et al. (1999) have introduced for reinforcing change. We identified, for instance, the modification of formal structures, procedures and HR practices (Alexandrium, 2013b); the development and pilot testing of innovation (Alexandrium, 2014a), the employment of rites and ceremonies (Alexandrium, 2014b), and the use of feedback to track the progress and commitment to change (Alexandrium, 2014f). The evaluation finds that widespread cultural change,

however, did not take place, at least not yet. It is interesting that the municipality already in 2013 foresaw that some parts of the OC would require more time ‘especially those referring to culture, attitude and behavior’ (Alexandrium, 2013b:86).

#### 8. Pursuing comprehensive change

Fundamental change in behavior is most likely to occur if public managers make systemic changes to all of the organizational subsystems. Ample evidence indicates that Alexandrium intended to change the whole organization. The respondents present a story of a trajectory in which all organizational parts have or will be changed (3, 4, 6, 8, 14). Dozens of high-impact changes were started simultaneously and at one moment no one could get his arms around it any more (3, 39, Alexandrium, 2014f). This encouraged the top-management to define new priorities for the remaining stage of the implementation. The focus remained, however, on reforming all aspects of the organization. The Alexandrium case presents mixed evidence regarding the perceived value of the revolutionary change approach. Many respondents (e.g. 1, 12, 13, 19) doubted whether the ‘big bang’ was needed and stated that the radical approach caused a lot of chaos, stress, and work pressure. Other respondents (e.g. 6, 8, 9, 47) said that the OC would not have been so successful if it was divided into smaller pieces. In their opinion, the radical approach was the only way to detect the skeletons in the closet and to align the development of the subsystems with the overarching goals of the reform.

Table 5.1 summarizes the empirical findings in Alexandrium and sets them side by side with the theoretical conditions.

#### 5.5 Exploring alternative catalysts for success

The case description shows that not all success conditions were fulfilled and that conditions were met in other ways, contrary to theoretical expectations. Informed by the rich evidence we explore three alternative catalysts of successful implementation in Alexandrium. Drawing on the personal experiences of 65 employees, we argue that the implementation of austerity-driven change evolves in a context that is much more politicized, contested and ambiguous.

It is highly politicized because change takes place in a competitive climate where politicians constantly compete for priorities. Numerous respondents (e.g. 50, 48, 51, 10, 16) argue that politicians have interfered much more frequently and more visibly in the change process to accelerate the pace and claim quick-wins. Also, much

**Table 5.1 Comparing empirical findings against expectations**

<b>Success condition</b>	<b>Expectations based on theory</b>	<b>Empirical results in Alexandria</b>
Ensure the need	<ul style="list-style-type: none"> <li>• Verify the need and persuade employees about urgency and vision of the future</li> <li>• Communication is crucial (demystify decision making, explain process, diffuse rumors)</li> </ul>	<ul style="list-style-type: none"> <li>• Shared sense of urgency, but no consensus about future organization</li> <li>• Difference between understanding and internalizing need for change</li> </ul>
Provide a plan	<ul style="list-style-type: none"> <li>• Road map to guide implementation</li> <li>• No time for preparations during austerity</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed plans were available; employees did not support the course of action</li> </ul>
Build internal support	<ul style="list-style-type: none"> <li>• Committed employees are crucial, but employee participation during austerity is unlikely</li> <li>• Other strategies need to be found to overcome resistance and build support</li> </ul>	<ul style="list-style-type: none"> <li>• No empirical evidence of attempts to involve employees, beside communication strategy</li> <li>• Instead a top-down approach was used to produce immediate results (rather than winning the hearts and minds of employees)</li> </ul>
Ensure topmanagement commitment	<ul style="list-style-type: none"> <li>• Top-management support is crucial for change</li> <li>• Congruence between politicians and managers</li> <li>• Continuity in leadership</li> </ul>	<ul style="list-style-type: none"> <li>• High-commitment of top-management (both political and managerial)</li> <li>• Remained in office during implementation</li> </ul>
Build external support	<ul style="list-style-type: none"> <li>• Develop support from external parties, such as unions, employees' council, interest groups</li> <li>• Relationships often deteriorate during austerity</li> </ul>	<ul style="list-style-type: none"> <li>• Very bad relationship with the employees' council (lack of trust, lawsuit)</li> <li>• Focus was on keeping things moving</li> </ul>
Provide resources	<ul style="list-style-type: none"> <li>• Gains are preceded by investments</li> <li>• No budget available during austerity</li> </ul>	<ul style="list-style-type: none"> <li>• Specific reserve was available for frictions</li> <li>• Dedicated change team, but people in the work floor were overstretched</li> </ul>
Institutionalize change	<ul style="list-style-type: none"> <li>• Modifications of behavior of employees is timely</li> <li>• No time available during austerity</li> </ul>	<ul style="list-style-type: none"> <li>• Widespread cultural change did not happen</li> <li>• Stimulating strategies have been used (reform of structures, procedures; innovations, etc.)</li> </ul>
Pursue comprehensive change	<ul style="list-style-type: none"> <li>• Change of all subsystems is needed to realize transformational change</li> <li>• Results have to be achieved quickly during austerity</li> </ul>	<ul style="list-style-type: none"> <li>• All organizational parts have or will be changed</li> <li>• Mixed evidence regarding the perceived value of the comprehensive, revolutionary approach</li> </ul>

emphasis was placed by the respondents (e.g. 5, see also Alexandrium, 2014f) on the negatively-loaded climate with more winners than losers. More than in regular events of OC, there will be conflict and resistance. A third aspect that emerges from the case is the comprehensiveness of austerity-driven OC. Many respondents (e.g. 5, 28, Alexandrium 2014b) argue that implementing transformational change during austerity is more difficult because people have diverging perceptions of what is important at a specific moment in time. We tentatively argue that change implementers who operate under dire circumstances must pay attention to three so-called acts of implementation.

#### Act 1: Accept and use political interference

The case reveals that austerity-driven change is a complex type of OC that evolves in a highly politicized environment continuously competing for priority. Rather than keeping the political executives at a distance – which is common in regular OC – they need to be actively involved. We argue that the success in Alexandrium was seriously shaped by the close partnership between the political and managerial top-management. Certainly, each did its own job. The CMA was involved in setting the stage and acquiring political and financial support; whereas the city manager launched a revolutionary approach to change, appointed like-minded managers on key positions, and coordinated the implementation with an iron fist. The intensity of the partnership, however, seems to have made the difference. The forceful approach of the city manager, for instance, was only possible because it was tolerated and supported by the CMA. Also, to an extent, the CMA was open to pushing the boundaries of political agreements when swift implementation was threatened. In the case of external hiring, for instance, politicians accepted that experts were still hired by the administrators, despite the fact that this explicitly conflicted with political agreements and financial targets. Political interference, on the other hand, was only possible because the city manager accepted and used their contributions, for instance, in cocreating the new organization and the guiding principles for future behavior, or acting as a mediator to restore the relationship with the employees' council. The first act of implementation focuses on building a meaningful partnership between politicians and managers, by accepting and actively using political interference to bring about change.

### Act 2: Anticipate resistance to change

Secondly, the case shows that austerity-driven change is a type of OC that is specifically associated with negative emotions, resistance and conflict. Although it is often framed as a positive event (doing more with less!), there will likely be more losers than winners. OC has to be implemented under enormous time pressure: deficits require quick fixes, voter-seeking politicians need quick results, and the crisis provides a window of opportunity to bring about long-desired reforms. More than in regular OC, the implementation of austerity-driven change occurs in an environment of bitterness fueled by job insecurity, increased work pressure, and declined personal budgets. The morale of surviving and condemned employees is likely to be very low, and they will be less inclined to cooperate. In Alexandria, the top-management expected resistance against the austerity-driven change from the beginning. They were convinced, however, that other choices would have resulted in resistance from other parts of the organization. Rather than trying to develop widespread support, they chose to focus on the delivery of immediate results. The tactics of implementation involved, for instance, the swift realization of a number of irreversible reforms (e.g. modification of formal structures, procedures and HR practices) which serve as the foundation for the enduring change. These results were presented to the employees as *fait accompli*: people had to choose between accepting them and leaving the organization. The evidence confirms the idea that 'explicit and implicit coercion' are to be expected when immediate implementation is essential, although it comes with a severe decline of employee morale (cf. Kotter, 2002). The second act of implementation focuses on the management of resistance. Managers who are involved in austerity-driven change must anticipate considerable resistance to change, whatever choices they make. The balance between accepting resistance and building support, however, is likely to vary across organizations depending on the severity of the crisis (the need for immediate results) and the political and managerial ambitions.

### Act 3: Accentuate multiple aspects of success

Austerity-driven change is an indisputable example of transformational change. It involves a wide variety of budgetary, structural and cultural changes and implementers must accomplish remarkable results in all these areas. Judging success appears to be extra difficult as people have different perceptions of the value of each area, the criteria for deciding when something is successful, and the degree to which a certain criterion has been achieved. The case evidence shows that accentuating a wide range of results contributes to the perceived level of success. The implementers

in Alexandria have seriously invested in the development of a scorecard for success, prior to the implementation. Instead of focusing on only a small number of achievements, they have formulated 64 indicators to measure success in different areas. They accentuated multiple types of results, from different viewpoints: *inputs* (e.g. total amount of cuts, reduction of management, harmonization of budgets), *throughputs* (e.g. specific procedural adjustments), *outputs* (e.g. specific structural adjustments), and *outcomes* (e.g. desired levels of customer and employee satisfaction). Such a comprehensive scorecard justifies the ambiguity of austerity-driven change implementation and allows the judgment of achievements. The implementation in Alexandria did not fail (simply because cultural change did not yet happen) nor did it succeed (simply because budgetary cuts are achieved). It was judged successful because numerous achievements have been realized and others have not been realized, at least not yet. The third act of implementation focuses on the management of ambiguity by emphasizing the multiplicity of innovative austerity management and accentuating the various aspects of success.

## 5.6 Discussion

This chapter addresses a key issue in contemporary society: reforming public organizations in austere times. The ambiguity of investing in change when there is no budget, however, raises questions about the ways in which innovative ideas are turned into reality. We have used Fernandez & Rainey's (2006) determinants to create a thick description of change implementation during austerity. We expected that Alexandria was successful because the implementation complied with the success conditions. The evidence, however, sheds a more nuanced light on the importance of the success conditions. Informed by extensive documentary and interview data from Alexandria we tentatively argue that a monocausal relation between 'complying with conditions' and 'implementation success' may merit some refinement.

First, the fulfillment of conditions is often multifaceted. Employees, for instance, shared the need for change but did not share the ideas for the future organization. Also, support for OC from the top administrators does not automatically imply political support. If found more generally, this suggests a refinement of the first two success conditions. Second, the description shows that austerity-driven change is highly political, despite its financial appearance. One of our presumptions was that the chances of success increase when eight conditions are fulfilled. Informed by the case evidence, we now argue that this hypothesis is not universal. When the aim is to produce immediate results, a forceful approach might be more appropriate at the

expense of decreased morale and employee dissatisfaction. We argue that successful implementation of austerity-driven change is not so much a matter of neatly complying with the static success conditions, but of crafting acts that fit with the specific context. We explore three alternative catalysts that influenced success in Alexandria. If found more generally, this suggests a refinement of the framework, in terms of modifying the success conditions to the context and strategic aims of the OC.

This chapter contributes to the literature by examining the implementation of OC during austerity in-depth. It is widely accepted that implementing reforms is difficult when there is no budget. The case shows that it is certainly possible to implement austerity-driven OC in a short period of time. The evidence confirms the importance of top-managers in municipal austerity management (cf. Levine et al., 1981). The tight partnership between politicians and management, and their dominant focus on the delivery of immediate results were crucial to crowbar the organization out of inertia and bring about the change.

We propose a number of directions for further research. Given the limitations of the single example, there would be great value in examining the same research questions in other public organizations, in different countries. Future studies might also examine the relevance of the introduced acts of implementation, or investigate specific success conditions in greater detail, such as the relationship between resistance and enduring change.

## 5.7 Conclusion

This chapter argues that austerity-driven change – when compared to regular OC – evolves in a context that is much more politicized, contested and ambiguous. Budgets are continuously competing for priority, results have to be realized immediately and resistance to change is omnipresent. Drawing on a rich description of the Alexandria case, we tentatively conclude that the chances of successful implementation of austerity-driven changes increase, when managers accept and use political interference, anticipate resistance to change and accentuate multiple aspects of success. Highlighting particular aspects automatically impacts the others. If quick-wins are considered essential, one might explicitly prepare for disappointed and disconnected employees. On the other hand, if enduring reforms and winning the heart and minds of employees are the aim, one might take for granted that it may take a



while before the first results are visible. Either way, something of value will have to be sacrificed.

# 6

Producing innovation: building slack for  
innovation



**Abstract**

In chapter 6, I uncover the right type of organizational slack for innovation. I examine how city managers conceive slack, and how they create slack to facilitate innovation while dealing with fiscal stress. The study is built around a comparative case study approach to uncover contrasts, similarities, and patterns of slack-building for innovation in austere times. It relies on the experiences of twelve experienced city managers. Data are sought from elite interviews and one focus group. The main finding is that innovation in the public sector does not benefit from slack in general, but from a specific type of slack. The evidence shows that useful slack for innovation is not so much about financial slack or HR slack, but about psychological slack. This study adds to the literature that the key questions of slack research should not only focus on identifying the ‘right amount’ of slack but also on identifying of the ‘right type’ of slack. Public managers who want to deal with (fiscal) crises more innovatively might reconsider their perceptions of slack and its value. Rather than operating on a pure cost effectiveness paradigm, they should balance the costs of slack and its innovative abilities. In this chapter I highlight the social and psychological sides of austerity management. I conclude that increasing the ability of public organizations to innovatively cope with fiscal stress is not so much about increasing predictive capacity or financial buffers, but about increasing the mental leeway of coworkers.

Chapter 6 is published as an original research article by Tom Overmans in the Journal of Public Budgeting, Accounting and Financial Management.

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## **6. Producing innovation: Building slack for innovation**

### 6.1 Introduction

Municipalities in the Netherlands have been coping with a fiscal crisis roughly between 2009 and 2016. The combination of national government cuts and rising costs for public services forced managers to rethink local government and come up with bold and creative solutions. The preference for innovation to deal with the global financial crisis (GFC) is omnipresent (Kiefer et al., 2015). Innovation was considered as the ultimate solution to run municipalities different and therefore better and cheaper (Overmans & Noordegraaf, 2014). It is often argued that slack is a vital catalyst for creative behavior and innovation (e.g. Cyert & March, 1963; Herold et al., 2006). Slack allows original thinking because it protects the organization from the uncertain success of innovative projects (Nohria & Gulati, 1996) and provides spare capacity for learning or deployment in crisis (Hood, 1991). Slack-rich organizations, in other words, can recover from crises more innovatively because they are in the possession of excess resources that can be allocated quickly to develop and implement breakthrough ideas.

The likelihood that municipalities hold certain levels of slack in times of austerity, however, is quite slim. On the contrary, it is repeatedly demonstrated that increasing efficiency is among the most important management aims when dealing with fiscal deficits (e.g. West & Condrey, 2011; Raudla et al., 2015), although there is some evidence of slack (building) in Italian municipalities that are coping with fiscal stress (Barbera et al., 2016). Typically, the discovery of waste will delight managers not because this provides them with unabsorbed resources and fresh capacity to develop new approaches, but with new opportunities to drive costs down. The attention for organizational efficiency during austerity and the negative perception of excess capacity is partly caused by the dominance of NPM-thinking (Hood, 1991; Pollitt et al., 2007; Diefenbach, 2009). Ever since the 1980s, the dominant management paradigm has been focusing on finding ways to transform public organizations into proper lean organizations (Lawson, 2001). But especially under dire circumstances, slack resources are welcomed as cashable cost-savings (Jimenez, 2014; Cepiku & Savignon, 2012).

The contradiction between the necessity of slack for innovation and the absence of slack during austerity, raises serious questions about how city managers have realized their ambitions to overcome the GFC in ways that are innovative. This paper

focuses on this particular tension, and analyzes how slack can be managed in the midst of crisis. The central research question is:

*How do city managers conceive organizational slack, and how do they create the 'right type' of slack for innovation while dealing with fiscal stress?*

The study is built around a comparative case study approach and aims at uncovering contrasts, similarities, and patterns of slack-building for innovation in austere times. It relies on the experiences of twelve experienced city managers that participated in the Network for Innovative Austerity Management, an interorganizational learning forum that was established in 2012, focusing on their interventions to foster an innovative climate. Data are sought from semi-structured elite interviews and one focus group. The study enables theory building, as the results generate new insights for the re-conceptualization of slack and slack-building in specific contexts.

This chapter begins by introducing slack against the background of innovation and austerity in section 2. Also, two expectations are formulated in this section. Next the design and setting are clarified. In the fourth section the chapter presents the slack building practices in twelve Dutch municipalities. In section 5 the results are discussed and avenues for future research are presented. Conclusions are drawn in the final section.

## 6.2 Theory

### 6.2.1 Organizational slack

The concept of organizational slack was introduced in the 1960s (Cyert & March, 1963; Näslund, 1964) and gained considerable attention ever since (e.g. Welbourne et al., 1999; George, 2005; Sgourev & Van Lent, 2017). More generally, slack is considered as 'resources in excess of what is needed for the normal efficient operation of an organization' (Bourgeois, 1981:34). Slack applies to all organizational levels because 'it captures the extent to which any unit (be it an individual, a department, a function, a division or a firm as a whole) has excess resources that can be marshaled to meet contingencies' (Nohria & Gulati, 1996:1247). Daniel et al. (2004) have argued that slack can be available (e.g. by deploying unallocated budgets), recoverable (e.g. by restoring inefficiencies), or potential (e.g. by raising unused tax capacity).

When theorizing about slack, a distinction is typically made between two types of slack: financial slack and HR slack. First, and most dominant in the literature, is the

focus on *financial slack* (FS), also known as budgetary slack (e.g. George, 2005; Bourgeois, 1981). FS refers to the presence and availability of excess budgetary resources. Although it is relatively easy to describe and retrieve particular budgets and accounting ratios, a number of indicators have been proposed to operationalize FS. One or more of the following indicators are typically used to measure the presence of FS within an organization: cash reserves, working capital, debt-to-equity ratio, current ratio or R&D-funds. More generally, this chapter refers to FS as unallocated budgets or potential revenue sources that public managers can influence and redistribute for alternative purposes without hurting the agreed operational output.

A second way to conceptualize slack is by emphasizing the personnel aspects of the concept (e.g. Mishina et al., 2004; Welbourne et al., 1999). *Human Resource slack* (HRS) generally refers to an excess staff situation where an organization has a greater number of employees than is necessary to sustain routine operations. This perspective is more blurred because it lacks a clear definition (Mishina et al., 2014) and concentrates on a wide spectrum of indicators, such as the level of redundant staff (Bourgeois, 1981), available time (Lawson, 2001), staff-to-output ratio (Welbourne et al., 1999), or types of knowledge (Lecuona & Reitzig, 2014). This chapter considers HRS as excess staff capacity that public managers can influence and redistribute to explore new activities and to guarantee the continuation of the organization, even if one component fails.

Although the differentiation between FS and HRS is accepted (Mishina et al. 2014), it has also been criticized (e.g. Sgourev & Van Lent, 2017; Forte et al., 2000; see also Denhardt & Denhardt, 2010). The main critique argues that the division ignores relevant indicators and alternative dimensions of excess capacities maintained by an organization, such as cultural dimensions (i.e. the extent to which institutions allow redundancy, cf. Schein, 1997), social dimensions (i.e. the number of relationships with internal and external coworkers, cf. Uzzi, 1999) and individual dimensions (i.e. the level of attention that coworkers redistribute to what is most important, cf. Senge, 1990). One possible explanation for the strong preference for FS and HRS might be in the chances to operationalize the concepts to make them suitable for empirical research. Especially FS, but also HRS, can be relatively easily operationalized to physical entities such as cash, people, skills, machine capacity and so forth (cf. Sharfman et al., 1988). Informed by the literature, the focus of this study is on slack in terms of finances and HR, although it is explicitly open for alternative, less tangible dimensions of slack, either at the organizational level, the interpersonal level or the individual level.



### 6.2.2 Slack: curse or blessing?

Both in theory and practice, one can find proponents and opponents of organizational slack. It is obvious to relate the preference or rejection of slack to Wildavsky's (1964, 1997) renowned 'spender/guardian' framework. For many decades it is argued that budgeting outcomes are shaped by the rational behavior of actors in two highly institutionalized roles. First are the spenders, such as aldermen and division directors, whose main preoccupation is providing public services. One reason for spenders to increase their budget is that they are confronted with things that are not realized but should be realized. Although it seems noble to strive for bigger budgets to create more public value, there are many other reasons that explain the quest for bigger budgets. According to Niskanen (1994), for instance, self-interested spenders will seek to enlarge their budgets in order to increase their own power, thereby contributing to unrestrained expenditure growth as well as inefficiency. Spenders are likely to leave the concern about the 'bigger picture', such as whether or not the total budget will be balanced, to the guardians (MacKinnon, 2008).

These guardians, such as the financial alderman or the treasury department, are the protectors of the public purse. They strive for fiscal discipline and minimum levels of adequate budget allocation. Despite the great usability and impact of the framework it is also criticized (e.g. Good, 2014). Typically, these criticisms address the framework's rigidity and simplicity. Municipal actors, for instance, can perform multiple functions at the same time. In one 'budget game', a division director might act as a spender that aims at gathering the biggest possible budget, whereas in another game he takes the role of the guardian that limits funding among a few competing claimants (p. 24). Nevertheless, following the spender/guardian explanation, it can be argued that the positive or negative perception of slack is related to the specific institutional role an official performs. Spenders are likely to attach more value to extra capacity and will invest more time in the building of slack. Guardians on the other hand, are likely to embrace a more negative perception of slack as they strive to limit public spending.

The literature also provides evidence for a second perspective, which helps to understand the opponents of slack. Ample evidence has demonstrated that NPM has affected manager's thinking about efficiency and parsimony (e.g. Hood, 1991). The increased attention for financial discipline created a climate that imposed fiscal limits, introduced new budgetary methods and amended incentive structures shaping bureaucratic behavior (Kelly & Wanna, 2000). Stimulated by the growing importance

of NPM-thinking, slack is increasingly considered as avoidable cost and a reflection of managerial incompetence (Pollitt et al., 2007). Rather than allowing slack, the government has to be transformed into lean and mean business machines (Lawson, 2001). The pressure to eliminate slack that grew under NPM is likely to kick into high gear in times of crisis (Dunsire & Hood, 1989; Raudla et al., 2015). Especially during austerity, slack is considered as a reservoir of wasted resources that needs to be fully tapped (cf. Nohria & Gulati, 1996). The NPM-explanation, therefore, suggests that the three decades of entrepreneurial thinking has slowly eroded the appreciation and existence of slack in public organizations.

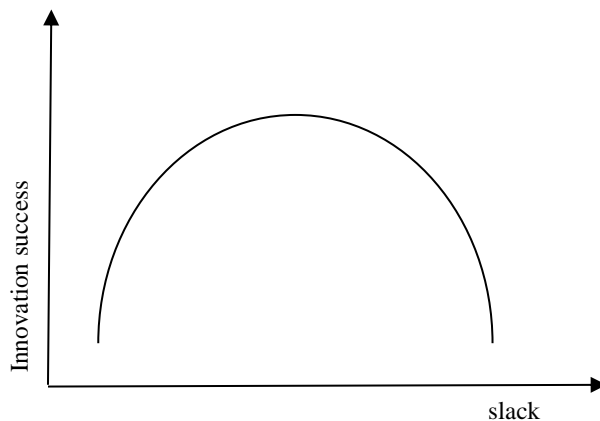
One third perspective, which helps to better understand the proponents of slack, is related to ideas of organizational resilience. Instead of regarding slack as waste, it is viewed as a critical buffer that stimulates the recognition and appreciation of emergent possibilities. In this position, scholars emphasize the relevance of slack for solving conflicts (Cyert & March, 1963), stimulating creative thinking (Bourgeois, 1981), facilitating organizational learning (Moynihan & Landuyt, 2009) and adaptation (Barbera et al., 2016). The favorable perception of slack has gained traction especially from organizational behaviorists (reconciled in Denhardt & Denhardt, 2010). Instead of eliminating slack and losing the capacity for resilience, governments have to allow excess capacity that makes them adaptable and able to deal with contingencies (Weick & Sutcliffe, 2007). It is argued that especially during crises, excess capacity is crucial for practicing the needed innovation, adaptation and experimenting (e.g. Wildavsky, 1988; Hamel & Valikangas, 2003). Recent evidence shows that municipalities that allowed and activated slack and ensured flexibility in spending were able to develop more dynamic and sustainable responses to fiscal stress (Barbera et al., 2016). The resilience-explanation suggests that individuals appreciate and create slack so as to deal with environmental shocks and discontinuities.

### 6.2.3 Slack and innovation

The relationship between slack and innovation has received considerable attention from a wide range of scholars (e.g. Huang & Cheng, 2010; De Vries et al., 2016; Herold et al., 2006). For addressing innovation, this chapter follows Lodge and Wegrich (2014, 6ff) who state that “innovation denotes, at its most basic level, a degree of change that goes beyond the familiar and that is being replicated intentionally”. These changes might refer to the introduction of new products – such as new youth care products – or adjustments in procedures – such as new ways of co-producing public services. Similar to the debate about the value of slack, there are

supporters and opponents of slack for innovation. Scholars in the unsympathetic group, which has become increasingly smaller over the years, have argued that slack hurts innovation because it stimulates investments in unnecessary pet projects of executives and unrelated activities (Jensen, 1993). Child (1972) argues that, even though slack results in the development of many new ideas, the likelihood that breakthrough ideas are translated into valuable innovations for the organization is limited because the most appreciated ideas are often stronger related to personal preferences of managers than to economic considerations.

**Figure 6.1 The relationship between slack and innovation success**



Scholars in the supporting group, which has become increasingly larger, have generated more and more empirical evidence that demonstrates a relationship between slack and innovation. Most evidence supports the idea of the curvilinear relationship that was introduced by Bourgeois (1981). He argues that slack is positive, up to a point, then negative (figure 6.1). Nohria & Gulati (1996), for instance, have confirmed that a lack of slack impeded innovation in multinational corporations because it discouraged the development of creative ideas with uncertain outcomes; but also show that too much slack hurts innovation because it allowed the execution of thoughtless projects. The existence of such a general inverted U-shape relation between slack and innovation is repeatedly confirmed in other sectors and other organizational levels (e.g. Herold et al., 2006; Cheng & Huang, 2010). Within the last decade, it has become accepted that it is not an issue of whether or not slack is important for innovation; it is about finding the ‘right amount’ of slack.

Although the empirical work is of great importance, three remarks can be made. First, it remains unclear what type of slack serves innovation. Although the curvilinear relationship between slack and innovation is repeatedly confirmed, scholars do not yet agree on which type is most valuable. Sometimes emphasis is placed on money, sometimes on people, but almost never on alternative dimensions. Second, most publications lack insight into the managerial interventions to create slack, that is, to capitalize excess capacity to make it work for innovation. Third, most studies focus on slack in the private sector. This chapter attempts to fill these gaps and examines how public managers conceive slack and its value for innovation, and how they create the right slack for innovation while dealing with fiscal stress.

This chapter tests two expectations to discover the ‘right type’ of slack for innovation. The first expectation focuses on the importance of FS. The rationale here is that managers who want to practice innovation focus on the creation of FS because monetary buffers enable the hiring of experts for innovation projects and protect the organization from the uncertain success of such projects. Also, a bigger budget increases the manager’s influence and intervention space. The financial expectation is formulated as follows:

Expectation 1: When stimulating innovation during austerity, the key focus of city managers is on creating financial slack.

The second expectation focuses on the importance of HRS. The rationale here is that managers who want to practice innovation focus on the creation of HRS because spare staff capacity provides the organization with the time and skills to develop original ideas. Also, a bigger department will increase the manager’s power and influence. The HR expectation is formulated as follows:

Expectation 2: When stimulating innovation during austerity, the key focus of city managers is on creating HR slack.

### 6.3 Research design

A case study approach is used to find out how city managers realize their ambitions to overcome austerity in ways that are innovative. More specifically, this chapter relies on a comparative case study to examine how twelve city managers deal with the tension to create slack for innovation while coping with fiscal stress.

### 6.3.1 Study setting

Dutch municipalities have been dealing with austerity roughly between 2009 and 2016. A combination of national government cuts, depreciation of construction land and rising costs for local services, forced them to rethink local government and come up with bold and creative solutions. On average, the municipalities had to restore a gap of around €250 per capita (Overmans, 2017). Because Dutch municipalities strongly depend on national grants and lack the opportunity to raise council taxes or introduce new revenue sources, they focused on reducing expenditure.

This study concentrates on twelve Dutch municipalities, a sample that is obtained from a critical case selection as it exemplifies a group of municipalities where the desire existed to overcome the GFC in ways that are innovative. Between 2012 and 2014, the cities of Amersfoort, Amsterdam, Arnhem, Ede, Eindhoven, Emmen, Enschede, Hilversum, Leeuwarden, Nijmegen, Utrecht, Zaanstad, and Zwolle (full list) formed the *'Network for Innovative Austerity Management'* (Netwerk Vernieuwend Bezuinigen). The municipalities have between 90,000 and 850,000 inhabitants and employ between 700 and 14,000 coworkers. The network aimed at developing and distributing knowledge about innovative responses to the GFC, but also about increasing their abilities to adapt to future crises. The network membership constitutes convincing evidence that a desire for innovation existed. Within this setting, the research question is situated: how do city managers conceive slack, and how do create the right slack for innovation? The comparative design is used to investigate managerial slack-building practices, and to discover contrasts, similarities, and patterns.

### 6.3.2 Data sources

The study relies to a large extent on the experiences of city managers. In the Netherlands, city managers (aka Chief Administrative Officers) are full-time administrators appointed by the Council for Mayor and Aldermen (CMA). As general director of the administration, they are the highest-ranking municipal official. They are secretary of and first policy advisor to the CMA. They have a crucial role in proposing priorities among policies and projects, deciding organizational outputs, recommending organizational development and appointing top and middle management. Between December 2017 and January 2018, in-depth elite interviews (Rhodes et al., 2007) were conducted with twelve experienced city managers for the detailed generation of individual accounts.

The interviews were structured around three topics that relate to the literature and the formulated expectations (figure 6.2). First, the interviews focused on the ‘presence of an innovation climate’ within the municipalities. This enabled the collection of data about the ambitions to overcome fiscal stress with innovations and disentangled how the managers connect austerity and innovation in their practices. Second, the interviews focused on the ‘presence of organizational slack’ within the organization. This facilitated the retrieval of the managers’ perceptions of organizational slack; especially of the ‘right type’ of slack that stimulates innovation. Third, the interviews focused on the ‘actions by which the city managers create slack during austerity’. The empirical evidence that was collected in this section allows theory building about slack-building in specific contexts.

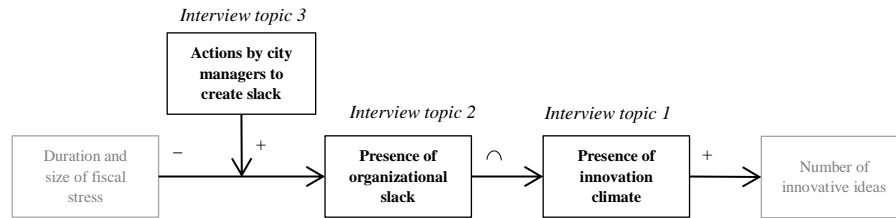
Interviews were recorded and verbally transcribed to enable thorough scrutiny. The data from the interviews were used to inform and structure one focus group that was organized in February 2018. The focus group brought together six of the city managers to discuss the findings at a more strategic level and to trace differences and similarities within the group. The focus group was also transcribed to allow further analysis.

### 6.3.3 Data analysis

The data analysis consisted of three stages. First, all transcripts were analyzed to uncover contrasts, similarities, and patterns within the managerial practices. Informed by the literature, the evidence was categorized into a number of sub groups, such as the ‘existence of innovative projects’ and the ‘organization of projects’ in interview topic 1, or the ‘availability of financial buffers’ and the ‘availability of staff capacity’ in topic 2. The first analysis guided the empirical answering of the expectations. Second, as an intermediate stage, the transcripts were examined from a broader perspective. This analysis deliberately moved away from the literature and aimed at the exploration of unaddressed types of slack. The second analysis facilitated the empirical discovery of alternatives types of slack that served innovation in the municipal practices. Third, the evidence from the transcripts was analyzed and compared to show how city managers have built the right type of slack that stimulated innovation. The outcomes of the different stages were discussed with six managers in the focus group. The group discussion resulted either in encouraging and strengthening preliminary findings (as was the case, for instance, with the identification of beneficial slack for innovation) or weakening and reorienting such

findings (as was the case, for instance, with the preliminary identification of interventions to create slack). The results of the analyses are elaborated below.

**Figure 6.2 Three interview topics**



## 6.4 Findings

### 6.4.1 Illustrating the innovative ambitions

The interviews generate twelve stories of managers involved in a serious crisis. Although the impact of the GFC varied across municipalities, the cases illustrate that the endeavor was anything but business as usual. Of course, serious cuts were needed in the short run to restore the deficit, but at the same time the municipalities had to implement far-reaching youth and elderly care tasks that were decentralized from central government, deal with a fragmented political climate and an empowered society and ensure that the operation continued to run.

A major thread running through the interviews is the insight that innovation was crucial for dealing with the GFC. In the managers' experience, an isolated approach to reducing budget deficits would have been harmful for the organization because it denies the crucial developments that occur in the environment simultaneously. One manager (R1) used the metaphor of repairing a sinking ship without reconsidering the original destination. Another respondent addressed it as follows:

“Stand-alone cutback management is like focusing on yesterday's agenda. And it is exactly that what brought us in problems. If we had stuck to the world of yesterday, we would have never actually stepped forward. I think that especially the policy elites need to understand what is happening out there, where the organization is heading for in the long run. [...] It is crucial that austerity is put in this perspective of tomorrow's challenges.” (R10)

The example illustrates that the environment in which cities were operating, had seriously changed and that organizational adaptation was crucial to secure the long-term viability of the municipality.

The practices show that austerity was only one of many things that needed managerial attention. Despite its prominence and impact, the cases reveal that austerity was subordinate to the substantive change that the municipality had to undergo. The participants in the focus group (R1, R2, R3, R4, R5, R7) agreed that widespread innovation was most significant, not austerity. Repositioning the managerial task in such way was important because it put emphasis on other terms, themes and tones. Instead of viewing austerity as a stand-alone fiscal endeavor, the managers arranged it as part of a comprehensive organizational change practice that connected different types of innovation, that had to deliver large savings and of which the outcomes were uncertain. The evidence (e.g. R2, R4, R6, R8) shows that the alternative perspective resulted in important, but very practical alterations, such as a different political embedding. Because the dominant focus moved from finance to organizational change and innovation, the primary responsibility of the process was not vested in the financial alderman, but in a joint steering committee that linked various field, including strategy, HR and finance. This broader perspective and shared responsibility served as the foundation for the development of coherent reforms that facilitated the achievement of both substantive and financial goals.

The cases generate numerous examples of innovations that have been developed to increase organizational performance but also contributed to deficit reduction. The examples refer to procedural innovations, such as the introduction of data driven enforcement (R2, R4) and adjustments in citizen participation routines (R8, R9); but also to product innovations, such as the merger of multiple permits into one combined product (R3) or the development of software applications (R1, R5). The evidence (e.g. R3, R6, R8, R9) demonstrates that most of the successfully implemented innovations were developed and tested by the street level bureaucrats themselves, that is: by the coworkers who had to work with the established routines or products. There are, however, also examples (e.g. R2, R4) of municipalities that have successfully developed and implemented innovations with dedicated innovation teams or central innovation programs.



#### 6.4.2 Clarifying the value of organizational slack

The managers are familiar with slack and the evidence shows that they are able to interpret the phenomenon in rather precise terms. More generally, the respondents address both archetypical types of slack. When asked to conceptualize the concept, they typically start addressing either its financial aspects (e.g. R1, R4, R8, R9) or its personnel aspects (e.g. R3, R6, R10, R11). The managers' experience is that slack grows into the organization almost automatically and that it is related to environmental changes (R2, R8), alterations in policy priorities (R4), new insights in running an organization (R1, R4), and changes related to IT (R1, R5).

##### Financial slack (FS)

The interviews show that FS is a familiar term. According to the participants in the focus group, FS refers to spare budget capacity that is created more or less intentionally to secure resources for dealing with unexpected setbacks. The evidence does not provide an unambiguous picture of the value of slack. Some respondents (e.g. R12, R3, R4) almost routinely related FS with NPM and the associated perspective that slack is bad and should be avoided at all costs. Other managers (e.g. R2, R4, R8) are critical of, even condemn, the negative connotation of FS and suggest that FS is not about cash that is withheld secretly from the politicians but about budgets that stimulate the recognition and appreciation of emergent possibilities.

But despite the city managers' personal perception of FS or their motivations to create it, the evidence demonstrates that the presence of FS for innovation – comparable to R&D budgets in private sector firms – is highly unlikely. The data (e.g. R1, R3, R12) show that in austere times, but also in prosperous times, free-to-spend budgets will always be claimed by the politicians for specific purposes. In the words of one manager:

“The existence of unallocated funds in the municipal budget is illusory. It will always be amended by city council. For politicians, such money feels like play money. [...] And you know the outcome when the politicians have to choose between allowing such a budget and closing the local food bank.” (R1)

The quotation shows that available FS is highly unlikely in municipalities. There is, however, ample evidence (e.g. R4, R11, R1, R4, R7) that proves that budgets for innovation have been recovered from the organization. Sometimes these interventions to create FS were transparent and aimed at rationalizing decision making. Some

managers, for instance, used business cases to persuade politicians to reconsider earmarked budgets for investments in innovation projects or applied zero based budgeting to better justify spending; surpluses were used for alternative spending, including innovation. More often, however, these actions were less transparent and evolved in the managerial domain. This was the case, for instance, when unforeseen surpluses were used to cover prioritized innovation projects, when revenue growth was not shared directly with the politicians and the extra revenues were spent on the development of new ideas, and when austerity yielded more than agreed and the surplus was invested in the implementation of original ideas. The practices demonstrate that financial scarcity and the nonexistence of free-to-spend budgets have not been an obstacle to proceeding with innovation.

#### HR slack (HRS)

The interviews show that the respondents are also familiar with the personnel aspects of slack. According to the participants in the focus group, HRS refers to the availability of surplus coworkers. Many cases (e.g. R12, R11, R9, R7, R8) illustrate that the pressure on the work force increased as a result of the GFC. On the one hand this was caused by the termination of fixed contracts: fewer people were available to sustain routine operations. On the other hand, the work pressure increased because a growing group of coworkers was involved in the exploration of new ideas while at the same time they had to carry out their regular jobs. The evidence (e.g. R4, R7, R8, R9) also confirms that coworkers find it difficult to quit with certain tasks, at the moment they receive new tasks. In the words of one respondent:

“People were always running. When I asked them ‘Can you help me with something?’ then the answer always was ‘I am so busy’ or ‘I don’t have the time to do that’. And when I told them that they needed to reprioritize their work, they would answer ‘I don’t know what I have to reprioritize’. Very childish maybe, but sometimes I literally sat down with people to identify irrelevant tasks. But even when such tasks were identified, people would still say ‘I actually don’t want to quit those tasks’.” (R9)

The quotation clarifies that individuals find it difficult to reduce their own work load, even if they agree on the irrelevance of some activities. More generally, it illustrates that the coworkers’ inability to axe pointless tasks is a persistent problem for managers who want to deploy their staff as productive as possible for achieving the various organizational goals.

Ample evidence (e.g. R4, R2, R9, R8, R11), however, demonstrates that there are definitely possibilities to deploy staff in austere times to facilitate innovation. Sometimes the managers' actions focused on the organizational level and the use of strategic HR planning. The managers focused, for instance, on the redeployment of staff that was redundant in one part of the organization but employable in other parts – this enabled the participation of particular people in prioritized projects – or the use of employee development funds for the broader development of the organization. But their activities to create HRS also focused on the sub levels. Typical actions include the termination of 'project tourism' – which referred to the identification of project staff above what is operationally required to stimulate valuable deployment elsewhere – or the termination of irrelevant activities that nobody has asked for. The evidence demonstrates that, despite the lack of HRS, managers had sufficient opportunities to reshuffle tasks within a team, and to deploy staff for the exploration of innovative ideas.

#### 6.4.3 Exploring alternative types of organizational slack

The second analysis focused on uncovering alternative types of slack. These have been unaddressed in the literature but the practices might reveal other types of slack that have proven to be beneficial for innovation.

##### Identifying the cultural, social and individual dimensions of slack

As already mentioned, the respondents experienced no problems with identifying the two archetypical types of slack. Interesting, however, is that the vast majority highlighted alternative dimensions. First, these alternative dimensions concerned cultural aspects. This was the case, for instance, when respondents (e.g. R6, R12, R4, R1) emphasized the importance of the organizational climate. In their experiences, the likelihood of innovation proportionally increases with an increase in the number of institutions – whether these are rules, norms or beliefs – that stimulate creativity and experimentation. Second, the alternative dimensions concerned the social aspects. This was the case, for instance, when respondents (e.g. R3, R4, R10) addressed the density of the network in which people operate. In their experience, coworkers who invested seriously in establishing an unusually large network – which exceeded the typical contacts and professional connections that were needed for the coworker's operational output – were more successful in gaining support for their ideas and in introducing external innovations in their workplace. Third, and far most important, the managers introduced the individual aspects. This was the case, for instance, when

managers (e.g. R1, R2, R3, R4, R5, R6, R7, R9, R11) emphasized the psychological characteristics of coworkers, and referred to unused space in their minds (R2, R11), their ability to redirect ‘brain capacity’ to new activities (R5), and their level of comfort to operate in uncertain environments (R5, R8, R11, R12). In the words of two managers:

“It [innovation] is not about money or people. It is about the mentality of coworkers. It is about space in their minds. Innovation is not likely to increase when you give people free time. The Google hours so to say. I’ve never experienced the value of that. Why do breakthrough ideas always come from the same people, who are often the busiest of all?” (R2)

“Money is not interesting really. It is a lubricant and you need some of it in order to get things done. But I have never talked so little about money as the last few years. Because my experience has taught me that what is needed are other things.” (R11)

The quotations clarify the importance of a coworker’s mental leeway for the practicing of innovation. They reflect the managers’ experiences that innovation is not so much served by slack in terms of free-to-spend budgets or deployable staff, but by the degree to which individuals have free space in their minds. Given the convincing evidence from the twelve practices that the individual dimensions of slack were crucial for innovation, and given subsequent focus group insights on these individual dimensions (seen as psychological dimensions), the individual dimension was turned into a third type of organizational slack, which was specified as *‘psychological slack’*.

#### Operationalizing psychological slack (PS)

When asked to operationalize PS, the managers in the focus group (R1, R2, R3, R4, R5, R7) drew a comparison with FS and HRS, and stated that PS can be considered as ‘unused psychological capacity that individuals can influence and redistribute for alternative purposes without affecting their operational output’. PS thus refers to the presence and availability of the idle mental capacity of individuals, which is also referred to as ‘free head space’, ‘untouched brain capacity’ and ‘mental leeway’. This means that – in contrast to FS and HRS which are both measured at the organizational level – PS captures the extent to which an individual has excess resources that can be marshaled to meet contingencies. Although the evidence (e.g. R2, R4, R10) demonstrates that it is certainly possible to increase the level of PS, this chapter argues

that organizations cannot only increase their total level of PS by managing the mentality of current coworkers (see section 4.4), but also by recruiting and appointing new coworkers that already possess certain levels of PS.

The intangible character of PS makes it difficult to subtract concrete indicators from the interviews. Instead, this chapter used the interviews to uncover the particular behavior of individuals who according to the city managers possess PS. Three types of behavior emerge from the practices. First, according to the managers, ‘PS-rich’ coworkers are better than others able to translate clues in the environment to their daily routines (e.g. R2, R9, R10). As one manager argued:

“You need such employees who work for the people of the city. Who can look at their own work from the societal issues they are contributing to. As soon as the external circumstances or the value proposition changed, they were the ones who reconsidered their work. They were the ones who started doing things differently.”  
(R2)

The quotation illustrates the importance of the coworkers’ ability to redistribute their attention to the underlying intention of their work. The evidence provides a number of examples (e.g. R2, R1, R3) in which routines or products have been adjusted as a result of such reorientation. This was the case, for instance, when a municipality changed its routines of reclaiming undeserved benefits. Rather than recklessly and suddenly retrieving the amount due (which was instigated by financial and legal logics), the concerned household was contacted to explain what happened and to negotiate a payment arrangement. By placing oneself in the perspective of the household and the underlying intentions of the benefits system, the coworker prevented the household from financial problems without breaking the sustainability and solidarity of the overall system.

Second, PS-rich coworkers appear to be better able to think outside of the box. The respondents (e.g. R4, R2, R11) sketch an image of brave coworkers with enquiring minds who relax at the end of uncertainty, who operate on the edge of what is allowed, who take the freedom to move towards original directions and who think in chances and possibilities rather than misery and negativity. This was the case, for instance, when one coworker introduced the lean six sigma methodology to systematically increase the performance of a municipality. The evidence illustrates that this generated a lot of resistance from the people in the organization. Nobody wanted to work with the methodology, people felt threatened by it and the coworker

who introduced it was often ignored by her colleagues. But her abilities to operate under these daunting conditions have had an effect. Eventually, the resistance decreased, people began to see the value of the methodology and the desired innovations and savings became apparent.

Third, PS-rich coworkers appear to be good at the identification of those elements of their work that distract from value creation and causes energy to flow away. Respondents (e.g. R11, R9, R4) explain that this was the case, for instance, when coworkers kept pushing for the best solution while basic quality solutions were also accepted, or when they continued to muddle through with unclear projects that nobody was waiting. In their experience, innovation flourished when coworkers were able to axe pointless tasks leaving them with time to start up new activities.

#### 6.4.4 Building slack for innovation amidst crisis

The final analysis focused on the actions by which the managers have built slack for innovation while dealing with the GFC. As described in section 4.2, a myriad of actions have emerged from the interviews that deal with the creation of FS and HRS during austerity. Stimulated by the uncovering of a third type of slack and its demonstrated relevance for innovation, this study was especially interested in the activation of PS. The evidence shows that the ways to create PS, and the extent to which it is improved, vary from city to city. Nevertheless, the cases reveal at least five different ways to activate PS.

##### 1. The managers ensured that individuals were involved in meaningful work

According to several managers (e.g. R1, R2, R4, R10), the most important way to create PS is to ensure that individuals are involved in meaningful work. They found that coworkers who believed in their work to be relevant and important for the public, were much more motivated to perform their tasks properly and were more open to reconsidering procedures if this resulted in higher value creation. The participants of the group interview (R1, R2, R3, R4, R5, R7) concluded that, in their experience, the best way to achieve this is by creating a convincing ‘frame’ that connects societal changes, political ambitions and organizational output. They argue that this is not a political interpretation, but an inclusive frame that clarifies the relationships between local government and society, outlines the future administration and sets direction. They found that such a frame ensured that individuals understood what was happening and signed up to participate. In the words of one manager:

“A convincing frame unblocks the minds of people. In our city, it motivated individuals to conceive austerity differently; they recognized that austerity also provided them with new opportunities to organize their work in a better way. [...] They became enthusiastic about the proposed avenues of change.” (R4)

The quotation articulates the importance of explaining to the coworkers not only the necessity of austerity, but also its chances to improve public service, and the relevance of their work. The contents and substance of the managers’ frames were comparable, although there were local nuances. The respondents indicate that these differences were necessary to create a frame that fits with the local context; that aligns the language and metaphors with the local societal and administrative culture. The evidence proves that sometimes these frames break with previous thinking (e.g. R4, R2, R8) whereas in other cases they build on it (e.g. R7).

## 2. The managers appreciated creativity and failure

Another way to activate the inner agility of individuals is to appreciate creativity and failure as part of the process to move forward. Many respondents (e.g. R2, R7, R8, R11) have experienced that the mental leeway increased when coworkers sensed that the leadership appreciated original interventions and tolerated failures. Encouraging deviant behavior was not easy in a climate that naturally focuses on risk aversion. But the practices confirm that there have been ways to improve the climate, for instance, by aligning expectations with the involved actors. In the words of one manager:

“If you want to innovate, you have start with finding agreement on the codes of innovation. One of these codes is that innovation can also fail. Everyone has to understand that from the beginning. Innovating along the line of success is impossible.” (R11)

Managers stimulated original thinking by introducing new language. The respondents agree that discursive interventions have had an important function. The selection of appropriate language, however, appeared difficult and contingent. For instance, where some managers (e.g. R4, R6) introduced specific rhetoric – such as craftsmanship – to emphasize the professionalism and skillset of coworkers, others (e.g. R2) deliberately moved away from such terms because they found that this stimulated the individuals to engage in passivity and revert to the things they had learned in the past. While what was necessary were coworkers with an open mind and a fresh perspective on the future.

3. The managers encouraged that the work of individuals fitted with their personal motivations

A third strategy to create PS is by ensuring that coworkers are happy, and work on things that personally matter to them. Numerous respondents (e.g. R3, R5, R9, R10) argue that the mindset of coworkers improved when they were intrinsically motivated and energized by their work. The city managers stimulated this, for instance, by using introspective self-report questionnaires to uncover psychological preferences of individuals. This helped them to appoint managers on specific positions, point staff to suitable jobs, and inform strategic recruitment.

4. The managers created a climate of respect and mutual trust

A fourth way to create PS is by stimulating a climate of respect and mutual trust. It becomes clear from the interviews (e.g. R7, R10, R11, R12) that the mental leeway of individuals improved when they maintained meaningful relationships with internal and external stakeholders; when they knew each other, valued and supported each other's work, trusted each other. The managers used several interventions to improve the quality of relationships. For instance, they stimulated coworkers to connect with frontrunners, to operate in unexplored networks, to look beyond the boundaries of the own organization. They also invested in the quality of the relationship with the politicians. In the words of one city manager:

“Trust is crucial. The politicians must have the idea that you are working for them. And for the people in the city. Only until they trust you, you can proceed with uncertain projects.” (R7)

5. The managers recognized and celebrated positive matters

A fifth way to create PS is by recognizing and celebrating positive matters. Some respondents (e.g. R2, R4, R10) argue that the mentality changed when coworkers experienced positive matters while operating in a negative context. The managers used several interventions to stimulate pride, happiness and job satisfaction among coworkers. For instance, by recognizing and rewarding best practices and best failures of innovation. The evidence shows that it is important that the municipality is recognized by others as being innovative. This stimulated coworkers to get involved and offered the opportunity to position politicians in a positive way.



## 6.5 Discussion

This chapter addresses a major strategic tension, that is, building slack in the midst of crisis. The evidence reaffirms the importance of slack for innovation (cf. Bourgeois, 1981; Herold et al., 2006) and confirms that the pressure to maintain slack increases during austerity (cf. Pollitt, 2010; Cepiku & Savignon, 2012). The aim of this chapter was to identify the ‘right type’ of slack for innovation. Two expectations were formulated and tested.

The financial expectation suggested that the key focus of city managers would be on creating FS because monetary buffers enabled the hiring of experts for innovation projects and protected the organization from the uncertain success of such projects. The evidence does not confirm this expectation. It shows that unallocated budgets in public organizations are highly unlikely, in times of austerity but also in prosperous times. Although several ways have been identified to divert resources for innovation, the evidence shows that managers have focused on other things to foster innovation. The HR expectation suggested that the key focus of city managers would be on creating HRS because spare staff capacity provided the organization with personnel time and skills to develop innovative solutions. The evidence does not confirm this expectation either. Although the data demonstrate that the work pressure increased and that city managers have redeployed staff within the organization, no evidence was found that indicates the maintaining or increasing of the work force. Instead of organizing and enhancing staff capacity, the city managers have focused on other things to ensure that the right resources were present in the innovation projects.

The main finding of this chapter is that innovation does not benefit from slack in general, but from specific types of slack. Informed by the descriptions and practices of twelve experienced city managers, it finds that useful slack for innovation is not so much about financial slack or HR slack, but about psychological slack. The practices demonstrate that, in large municipalities, money for prioritized policy and projects – including innovation – is always recoverable. They also prove that the participation of particular people in such projects can almost always be organized, even under dire circumstances. The evidence shows that instead of money or people, unused mental capacity is crucial for innovation. This study adds to the literature that the key questions of slack research should not only focus on identifying the ‘right amount’ of slack (cf. Nohria & Gulati, 1996) but also on identifying the ‘right type’ of slack.

Although this chapter acknowledges the difficulties of operationalizing PS, it diverges from conventional views (especially Sharfman et al., 1988) which argue that slack refers to physical entities and that these entities must be differentiated from more intangible buffers. On the contrary, based on the findings it advocates the amalgamation of the psychical and psychological aspects of slack. The article argues that the value of scholarly work will increase if researchers include psychological criteria in their studies, in addition to conventional criteria such as cash, people, skills, and machine capacity. These psychological criteria can be plausibly found in other bodies of knowledge. It is recognized, for instance, that the actions by which the city managers have created PS, largely resemble the key components of ‘positive psychology’: positive emotions, engagement, relationships, meaning and accomplishment (Seligman & Csikszentmihalyi, 2014). Indeed, the practices show that the managers have put much effort in guaranteeing that their coworkers felt good and recognized the positive aspects of their work which took place in a rather pessimistic environment (*positive emotions*), that they found enjoyment in their work although this work often changed as a consequence of the GFC (*engagement*), that they operated in a climate of respect and mutual trust which allowed them to take risks and experiments (*relationships*), that they had a purposeful existence and felt that they were working for the people in the city (*meaning*), and that they had a sense of achievement even if experiments failed (*accomplishment*).

This chapter invites future researchers to take advantage of the fruitful insights of these and other psychologists to measure fuzzy concepts and to operationalize PS to make it suitable for empirical investigation. Sivanathan et al. (2004), for instance, discuss that the literature provides sufficient material to assess positive psychology at work. Typically these indicators refer to the well-being and psychological health of coworkers. They argue that job-related well-being can be measured by three different aspects: happiness, comfort, and enthusiasm (Ibid., 2004). But also other potential criteria are available in the literature, such as, self-regard, perceived competence, aspiration, autonomy, and integrated functioning (Warr, 1987). This article proposes that the suggested criteria for mental health set direction for the development of PS indicators in the future. Future research might also concentrate on the relationship between the three types of slack. For instance, despite the demonstrated importance of PS, some financial and personnel resources are necessary by any means to measure and improve the mental leeway of coworkers.

Obviously, there are drawbacks to this study. Firstly, our findings are restricted to the personal experiences of one type of actor (city managers) in a limited sample of

specific public organizations (twelve municipalities). Secondly, this chapter explores the value of organizational slack for innovation only by using qualitative data; it lacks attention for the measurement of actual levels of slack and innovation. Although the results of this chapter might be unsuitable to make sweeping generalizations, it argues that these deficiencies are not a problem because the aim was not to demonstrate a causal relationship between slack and innovation but to identify how certain public managers conceive slack and its value for innovations, and how they have create the ‘right type’ of slack while dealing with fiscal stress.

## 6.6 Conclusion

It is argued that environmental change is the one constant in the organizational life of today’s governments (Sarros et al., 2008). For municipalities to flourish in these volatile and uncertain climates, they have to able to adapt to contingencies. Especially when it comes to financial, economic or fiscal crises, solutions are often sought in obvious directions. Recent financial management literature, for instance, has argued that the best ways to prepare for new crises are the establishment of financial buffers to protect organizations from future drops in revenue (Zhang, 2015; see also Barbera et al., 2016) and the improvement of forecasting mechanisms for predicting financial crises (Trussel & Patrick, 2013).

Informed by the evidence in Dutch municipalities, however, this chapter argues that improving the capacity to recover from crises requires a focus on alternative dimensions and perspectives. It argues that these can plausibly be found in other bodies of literature, for instance in the fields of psychology and social science. It concludes that increasing the ability of municipalities to deal with future (fiscal) crises is not only a matter of allowing financial cushions or superfluous staff, but also and maybe more importantly of increasing the mental leeway of coworkers. Recognizing the psychological dimensions of slack is not only theoretically important, but also of great significance for practice. Managers who want to overcome crises more innovatively might reconsider their perceptions of slack. Rather than operating on a pure cost effectiveness paradigm, they should balance the costs of slack and its innovative abilities. This chapter shows that without psychological slack the chances of successful innovation are unlikely.





## 7. Discussion and conclusion

### 7.1 Introduction

As a consequence of the global financial crisis (GFC), municipalities in the Netherlands have been dealing with serious levels of fiscal stress, especially between 2009 and 2016. The dire circumstances compelled them to make severe cutbacks aimed at reducing service levels and value creation. The crisis not only affected the residents; many municipalities had to make serious budgetary and personnel cuts to the organization. Dutch municipalities dealt with an average deficit of €250 per capita, a number that outweighed any previous deficits.

When addressing fiscal stress and its impact on municipalities, the emphasis is often on the *financial* aspects of the phenomenon. The practical discourse, for instance, was shaped by a multitude of numbers, graphs, and financial forecasts. Local policy elites – such as *council members, mayors, aldermen, and city managers* – questioned and ‘attacked’ each other about the correctness and validity of statistics, the benefits of tax increase or cost reduction for restoring the fiscal equilibrium, or the constraints of financial arrangements. Informed by the academic literature, however, we know that dealing with fiscal stress is more than a straightforward financial endeavor, more than *‘doing less’*. Instead of treating austerity management as an isolated financial operation, we might see it as a more comprehensive matter of forming ‘sustainably performing organizations’.

If dealing with fiscal stress is considered as such a *performance problem* rather than a financial problem, alternative topics attract academic and practical attention. Influenced by New Public Management (NPM) and managerialism, scholars have been focusing on finding ways to *‘do more with less’*. They often concentrated on the so-called ‘3Es’ of managerialized organizational performance: *economy* (lowering and/or cutting budgets), *efficiency* (reducing the budget in relation to outputs), and *effectiveness* (accomplishing goals and achieving outputs). Such a performance perspective on fiscal stress is attractive, but just like more general problems attached to NPM it shows multiple weaknesses. First, it has a strong focus on the *short-run*. Second, it has a strong focus on the *tangible and measurable* sides of public sector action. Third, it has a strong focus on *first order responses* aimed at solving immediate problems at hand.

Given these short-sighted and single-loop features of a financial performance perspective, an alternative perspective on dealing with fiscal stress has been developed in this book. This institutional perspective was more sensitive to longer-term processes, incorporated less tangible aspects of organizational functioning, and focused on strengthening an organization's ability to adapt to exogenous demands. The key challenge of what this book calls 'innovative austerity management' is not about allocating budgets or updating performance, but more particularly about finding new ways to build 'institutional capacities' so that the organization can deal more creatively with the current crisis, but that it can also learn at deeper levels. I consider institutional capacities as the abilities of municipalities to adapt to changing contexts, abilities that go beyond financial resources and performance systems: interpretative, social, relational abilities, to see, think and act in innovative ways, to act creatively, learn, experiment. Dominant conceptualizations of how this works and might work, however, are lacking in the public (financial) management literature.

The objective of this study therefore is twofold. The first aim is to identify the institutional capacities that enable adaptive innovation in the face of external circumstances like the GFC. The second aim is to show how municipalities build and can build these capacities, by way of which actions and interventions. This is important, as environmental change is the prime constant in the organizational life of today's governments. Public organizations will have to be able to deal with unexpected difficulties and explore options to innovate, by relying upon actions/interventions that lessen the institutional constraints that determine much governmental responses. In order to achieve the research aims, I have carried out five different sub studies into three types of interventions: austerity *talk*, *decisions*, and *acts*.

This chapter constitutes the final part of the study. First, in section 7.2, it provides a detailed answer to the three sub questions that are introduced in chapter 1. Second, in section 7.3, it weaves together the empirical evidence from the sub studies to examine the main research question and establish the central conclusions of this book. Third, in section 7.4, it provides the academic implications focusing on theory and research. Fourth, in section 7.5, it provides the societal implications focusing on policy and practice. Fifth, in section 7.6, it offers some avenues for future research. And finally, in section 7.6, it ends by presenting some final remarks.

## 7.2 Answering the sub questions

This study was built around the following main research question to be answered:

***How do municipalities build institutional capacities to innovatively cope with fiscal stress?***

Because I assumed that capacity building was related to three types of interventions (the talk, decisions, and acts municipalities produce), I formulated three sub questions:

1. *How do municipalities build institutional capacities to innovatively cope with fiscal stress by way of discursive interventions?*
2. *How do municipalities build institutional capacities to innovatively cope with fiscal stress by way of decisional interventions?*
3. *How do municipalities build institutional capacities to innovatively cope with fiscal stress by way of practical interventions?*

Informed by the empirical data presented in the chapters 2–6 in this book, I can now answer these questions. The responses are elaborated in the sections 7.2.1 (sub question 1), 7.2.2 (sub question 2) and 7.2.3 (sub question 3).

### 7.2.1 Building capacities by way of discursive interventions (SQ 1)

The first sub question concerned the *discursive interventions* to build institutional capacities to innovatively cope with fiscal stress. Discursive interventions refer to the activities of municipal officials to introduce new ideas and unexplored concepts in the local discourse. Because addressing a problem and setting the agenda are usually considered as tasks of the political leadership (Brunsson, 2002), I focused on the discursive interventions of *local politicians*. When responding to crises, one of the first things for them to do is to develop appropriate talk. Talk is important because it sets great store of how to address particular issues. Rhetorical *novelty* was considered important because it was assumed that creating a ‘fresh’ narrative would reset the agenda and open up new routes, in the light of contextual changes. To clarify the discursive interventions of politicians, I have investigated how they conceived the crisis, and examined whether they used rhetorical aspects from alternative worldviews to create a new narrative.

The importance of discursive interventions has been primarily discussed in chapter 2. The presence and usage of different worldviews and narratives were studied by



highlighting various *austerity frames*. Insights from cultural theory (Douglas, 1982; Thompson, Ellis & Wildavsky, 1990) and the austerity literature (e.g. Raudla, Savi & Randma-Liiv, 2015, Hindmoor, 2010; Lodge & Wegrich, 2011) were used to construct four detailed austerity frames: an individualist frame, a fatalist frame, a hierarchist frame, and an egalitarian frame. Each frame puts emphasis on particular dimensions (see table 2.1) within an austerity narrative through which the local politicians attempt to convince the public of the value and logic of their solutions. The frames provided a clear coding framework to trace the discursive interventions of local politicians in Birmingham, Cologne, and Rotterdam. Two researchers categorized the austerity-related speeches independently according to their implied grid-group characteristics and fit with the austerity frames. In sum, 817 references in 13 speeches were traced that covered a total of 168 pages.

This study confirms that the rhetoric that local politicians have used to frame the crisis and potential solutions can be captured with four austerity frames, especially the individualist, hierarchist, and egalitarian frame. The findings demonstrate that the use of particular austerity frames relates to the dominant culture within a municipality. Two examples can illustrate this:

“In a period of difficult financial conditions, prudent action is required. Continuity and reliability are highly important to our citizens. Especially in difficult times, citizens need a recognizable track with secure guardrails. With this 2012 Budget and the related medium-term financial forecast, we lead the people in the right direction. ... The people in the city can trust us. We have demonstrated our competences through reliable and sound financial policies in recent years.” (Cologne 2011, 1–3, see chapter 2)

“The scale of the problem we are facing means we cannot simply make year on year efficiency savings. We have to plan for a radical change in what the council does and how it does it, and that will take years to bring about. So we have already begun a program of fundamental service reviews that will identify the activities that contribute most to our objectives, those that could be done more cheaply and those that could be discontinued.” (Birmingham 2013, 10, see chapter 2)

The first quotation concerns the rhetoric in Cologne. In one of his speeches, the mayor put emphasis on the proactive public sector and the decisive role of experts to steer the city into the right direction. This regulative rhetoric, which was omnipresent in the speeches in Cologne, fits neatly with the hierarchist culture that is characteristic of Germany (Hofstede, 2011). The second quotation concerns the rhetoric in

Birmingham, where the leader stressed the need for radical change and the importance of rational decision making and long-term performance. Although the managerialist rhetoric was completely different from the rhetoric in Cologne, it fits perfectly in the NPM-philosophy which is dominant in countries such as the UK (Pollitt & Bouckaert, 2011). The empirical evidence shows that when politicians framed the crisis and potential solutions, they started from the obvious narrative that fits with the dominant cultural climate.

This does not mean, however, that frame use was not necessarily rigid. On the contrary, one important finding of this study is that some politicians have established a new narrative that offered leeway for the development of innovative solutions. The practices show that such new narratives emerged when politicians successfully intertwined unexplored and faraway concepts from alternative worldviews with concepts from the fashionable doctrine. The development of democratic and participatory improvements in individualist Birmingham, for instance, was stimulated because the leader kept accentuating unfamiliar aspects, such as greed, fairness and the abuse of power, in the local debate. Other evidence shows that the diverse frame use by the politicians in Rotterdam empowered the development of efficiency-related improvements and procedural improvements in a prevailing egalitarian climate. Interestingly, when politicians relied strongly on one frame to conceptualize the crisis and potential solutions, little evidence was found of a deviating narrative that opened the way for innovation. This was the case in Cologne where the mayor relied strongly on the hierarchist frame. The lack of exploration inhibited the establishment of original talk. Consequently, because the narrative did not change, solutions were not very innovative in terms of developing new and unconventional ideas.

By stressing the importance of *frame flexibility* this book moves away from a static focus on ‘frames’ towards a more dynamic understanding of the ‘framing process’. This is important because scholars (e.g. Van Hulst & Yanow, 2016) have argued that the public does not always realize that problem definitions are not given, but framed by the leadership. In chapter 2, I opened up the processes through which such framing occurs in municipalities that are dealing with fiscal stress. The practices illustrate that how local politicians have used discursive interventions, and how successful they were, varies from city to city. But they demonstrate that local politicians can certainly use discursive interventions to move beyond the dominant frame, create a new narrative and facilitate innovation. Indeed, the evidence shows that rhetorical novelty was a prerequisite for the actual development of original solutions.

I can use the insights from the sub study also to enhance our understanding of building institutional capacities to innovatively cope with fiscal stress. We expected that municipalities that want to overcome the crisis would benefit especially from capacities that facilitate the *exploration* of new knowledge. The findings show that innovation did not occur until politicians developed a new narrative that stimulates original thinking and creative behavior. They needed *to deviate* from mainstream responses, allowing them to purposely move beyond dominant doctrines and use unexplored concepts, backed by a new narrative. This study shows that ‘talk that deviates’ was crucial for developing unconventional ideas that go beyond the exploitation of safe measures with short-term budgetary wins and minimal opposition.

#### 7.2.2 Building capacities by way of decisional interventions (SQ 2)

The second sub question concerned the *decisional interventions* to build institutional capacities to innovatively cope with fiscal stress. Decisional interventions refer to the activities of municipal officials to develop concise decisions that enable the exploration of innovative solutions. Because austerity decisions are normally included in the budgetary process, I focused on the decisional interventions of *local policy elites*. Policy elites are referred to as those ‘actors who hold political resources to be utilized to exert potential influence in various stages of the policy process, including agenda setting, policy analysis, policy formulation, policy implementation and policy feedback’ (Moyer & Song, 2016). Local policy elites – such as mayors, council members, aldermen, and city managers – are able to influence austerity decision-making, thereby shaping the course of austerity action. When confronted with crises, the policy elites will consider what *responses* will be for the best, make up their minds and present the decisions to the municipal bureaucrats, whose job is then to carry out the decisions. As such, austerity decisions are the coupling mechanism between austerity talk and austerity acts (cf. Brunsson, 2002). The development of particular decisions was considered important because it was expected that innovation-oriented decisions would motivate or force the bureaucrats to develop and deliver unconventional ideas. To clarify the decisional interventions of local policy elites, we have developed a classification of austerity measures in chapter 3, and examined the whether the elites deployed decisions that facilitated innovation.

The significance of decisional interventions has been primarily discussed in the chapters 3 and 4. The contribution of innovation-oriented decisions was studied by considering a myriad of austerity measures. Informed by a review of 46 austerity-related publications (see table 3.1) we developed a classification of four different

types of austerity decisions: ‘organizational cuts’, ‘fiscal cuts’, ‘fiscal change’, and ‘organizational change’. Each decision has its own impact, varying from the straightforward reduction of specific budgets (as an example of ‘fiscal cuts’) to comprehensive reforms that affect some or all parts of the administration (as an example of ‘organizational change’). The classification was first tested in eight Dutch municipalities in chapter 3, before it served as the foundation for a cross-national comparative study that we have conducted in five Dutch and five North Rhine-Westphalian (NRW) municipalities in chapter 4. The coding of austerity measures was done by a handful of researchers according to their fit with the four decision types. In total, 1,737 decisions were analyzed (609 records in the explorative study, and 1,128 records in the comparative study).

This study shows that municipal austerity measures can be captured with four types of decisions, and that local policy elites have a preference for three particular types. On average, most deployed decisions referred to ‘fiscal cuts’ (e.g. cheese-slicing budgets, terminating third party grant), ‘fiscal change’ (e.g. fiscal engineering, raising taxes), and ‘organizational cuts’ (e.g. reducing levels of city maintenance, closing service points). Despite the overall preference for these decisions, however, the results show a large variety between cities. The average austerity plan in the comparative study, for instance, existed for 20 per cent of fiscal changes. Some municipalities, however, used this decision type more often, whereas other municipalities preferred other decisions. Emphasizing this variety is important because it confirms that a universal, one-size-fits-all strategy to deal with fiscal stress is illusory. The decisional variety was evident in both countries and both studies, although the statistical variance in Dutch municipalities decreased in the second study, indicating some forms of isomorphism (cf. DiMaggio & Powell, 1983).

One of the most striking results of the sub studies was the limited use of innovation-oriented decisions. Although we assumed that municipalities would express a large preference for ‘organizational change’ decisions to overcome the crisis innovatively, the findings show differently. Especially in the explorative study, but also in the cross-national comparison, we find a relatively limited use of organizational change. None of the 18 municipalities in our samples had a clear preference for this type of decision. The comparative study provides two explanations for the relative lack of organizational change. First, we find that local policy elites avoided innovation when alternatives were available that yielded safer and swifter financial results. This was clearly recognized in NRW, where the policy elites focused strongly on raising local taxes. In contrast to their Dutch counterparts, municipalities

in NRW are much more autonomous in their finances and determining local tax policies. The findings show that as soon as the municipalities were confronted with fiscal stress, the elites were not considering innovation-oriented decisions that would enable the exploration of unconventional ideas. Instead, they chose to increase local taxes to restore the deficit.

Second, the evidence illustrates that the administrative culture can stimulate or hinder the use of innovation-oriented decisions. We find dispersion between fiscal-oriented plans in NRW (where fiscal cuts and fiscal change account for 81 per cent of the decisions) and organization-oriented plans in Dutch municipalities (where organizational cuts and organizational change account for 57 per cent of the decisions). The evidence demonstrates that the dispersion was partly caused by the diverse administrative cultures in both countries. It shows that innovation-oriented decisions were less likely in municipalities that had a rigid and inward-looking culture and manifest a ‘significant institutional continuity’, which is still common in German cities (Kuhlmann, Bogumil & Grohs, 2008).

The clear preference for short-term fiscal decisions, however, does not mean that municipalities have failed to proceed with innovation. Especially in some Dutch municipalities, we recognize an increasing share of innovation-oriented decisions. This demonstrates that, in *some* municipalities, policy elites have used decisional interventions to establish decisions that encouraged the development of original ideas. The evidence shows that the use of innovation-oriented decisions increased when the policy elites embraced a wider perspective on austerity management. In the words of a Dutch municipal director:

“These days, it is not about the reduction of activity, it is about changing our performances. Innovative austerity management drives further than the simple restoration of the fiscal balance. Our ambition is to lower our expenses by delivering our products faster, working more closely with our partners and by using technical innovation.” (Municipal director, 2013, see chapter 3)

The quotation illustrates the importance of organizing austerity management as part of a *comprehensive* organizational reform practice rather than a stand-alone fiscal endeavor. The findings show that a conscious choice for innovation-oriented decisions resulted in solutions that moved beyond the obvious fiscal and technical measures – such as cheese-slicing or increasing taxes – and increased the municipal’s ability to operate effectively in a climate of enduring scarcity. In our sample, for

instance, the use of innovation-oriented decisions incited the development of organizational innovations, such as the optimization of work processes, the digitization of public services, and the introduction of partnerships with other municipalities.

Having offered the most important insights into the decisional interventions of local policy elites, I can now return to the institutional capacities to innovatively cope with fiscal stress. I already argued that *deviation* was necessary to move beyond the dominant cultures and reset the agenda with discursive interventions. The evidence from the chapters 3 and 4 shows that *deciphering* the challenges and reinterpreting decisions were needed to orchestrate innovation when measures are taken. It shows that specific resources in the immediacy of the local policy elites were required to identify and tackle potential innovations and translate them into concise innovation-oriented austerity decisions that fit with the local circumstances. It shows that the chances of innovative austerity decisions increased when municipalities were possessed such a capacity and formulated concise decisions that facilitated innovation and clarified the financial impact of the proposed innovative solutions.

### 7.2.3 Building capacities by way of practical interventions (SQ 3)

The third sub question concerned the *practical interventions* to build institutional capacities to innovatively cope with fiscal stress. Practical interventions refer to the activities of municipal officials to implement innovative decisions. Because change implementation is often led by a career servant (Moynihan, 2005), I focused on the practical interventions of *bureaucratic implementers*, such as city managers, and program and project managers. When municipalities aim to overcome the crisis innovatively, one of the most important things to do is to actually develop and execute original solutions. Action is important because it turns ideas into reality. Atypical action was expected because it was assumed that the exploration and implementation of unknown solutions under dire circumstances clashes with the need for safe and swift financial returns. To clarify the practical interventions of the implementers, I have studied how they executed innovation-oriented decisions, and whether they managed to create room for lasting innovation while dealing with fiscal stress. The importance of practical interventions has been mainly discussed in the chapters 5 and 6.

### Implementing innovation-oriented decisions

I first discuss the implementation of innovation-oriented decisions that was examined by studying austerity-driven change. Chapter 5 used insights from change management in the public sector (e.g. Fernandez & Rainey, 2006; Kuipers et al., 2014) to determine the generic success conditions of change implementation. These conditions guided the thick description and interpretation of an austerity-driven change practice in a big Dutch municipality that was judged successful by an independent research group. The detailed investigation of one critical case enabled the examination of the relevance of generic success conditions for change implementation during austerity. The sub study drew on a wide variety of formal and internal documents and the personal experiences of 65 employees. The interviews were conducted and transcribed by the author, along with six other researchers.

The sub study shows that implementing change when there is no budget is different from implementing regular organizational change. It illustrates that not all generic conditions were fulfilled in the investigated practice (see table 5.1). We find, for instance, no proof of attempts to involve employees the change process, although ‘building internal support’ was one of the conditions for success. Neither did I find evidence of ‘building external support’ for instance from interest groups and unions. The data show that instead of winning the hearts and minds of the coworkers and the employees’ council, the management focused on producing immediate results with a forceful top-down approach.

This study demonstrates that the climate, in which austerity-driven change takes place, is uncharacteristic. In the investigated practice, three elements stand out. First, it reveals that the austerity-driven change *evolved in a highly politicized environment*. The findings show that change implementation took place in an over-competitive climate where politicians constantly kept competing for priorities. Politicians interfered more frequently and more visibly in the change process to accelerate the pace and to claim quick-wins for personal gains.

Second, the practice discloses that austerity-driven change was especially *associated with negative emotions, resistance and conflict*. We find that the implementation occurred in an environment of bitterness fueled by job insecurity, increased work pressure, and declined budgets. More than in regular change events, the austerity-driven change had to be implemented under enormous time pressure: deficits required quick fixes, voter-seeking politicians needed quick results, and the

crisis provided a window of opportunity to realize long-desired reforms. The morale of surviving and condemned employees was very low, and many employees were less inclined to cooperate.

Third, the case shows that austerity-driven change was *characterized with diverging and constantly changing perceptions* of what was really important. It shows that austerity-driven change was an indisputable example of transformational change that involved a wide variety of budgetary, structural and cultural reforms. Contrary to regular change events, judging success was difficult as the wide variety of stakeholders had different perceptions of the value of each area, the importance of particular criteria to measure success, and the degree to which certain criteria had been achieved.

The sub study shows, however, that implementing innovation-oriented decisions in a non-stimulating environment of scarcity is certainly possible. The findings demonstrate that the implementation of austerity-driven change was not only a matter of complying with eight generic success conditions, but also and maybe more importantly of *crafting dynamic and changeable acts* that fitted with the specific context. Although we have not investigated the relevance of the above contextual factors in other municipalities, we find that because the implementers paid attention to the specific contextual factors, they were more successful in delivering austerity-driven change. For instance, by building a tight partnership with the politicians, and actively using their interference, the city manager found enduring support for his radical reforms and forceful change approach. By swiftly realizing a number of irreversible reforms (e.g. new formal structures, procedures and HR practices), the top-management anticipated resistance to change and opened up routes towards more lasting organizational change. By emphasizing multiple achievements, from different viewpoints: inputs (e.g. total amount of cuts, reduction of management, harmonization of budgets), throughputs (e.g. specific procedural adjustments), outputs (e.g. specific structural adjustments), and outcomes (e.g. desired levels of customer and employee satisfaction), the managers successfully vended the implementation as a success while there was still work to be done in underprivileged areas.

#### Creating room for enduring innovation

I can now proceed to the practical interventions to create leeway for enduring innovation, which I investigated by highlighting various types of slack in chapter 6. I used insights from the literature on organizational *slack* and innovation (e.g. Cyert &



March, 1963, Bourgeois, 1983, Nohria & Gulati, 1996; Herold et al., 2006) to formulate expectations about the value and creation of slack for innovation during austerity. I expected that city managers would stimulate lasting innovation by either creating monetary buffers that protect the organization from the uncertain success of exploration, or allowing spare staff capacity that provides the organization with time and skills to explore new ideas. I studied the slack-building practices in twelve municipalities that participated in the Dutch *Network on Innovative Austerity Management*. Data were sought from ‘elite interviews’ (cf. Rhodes et al., 2007) with the city managers, and one focus group with six of them. The interviews were conducted and recorded by the author, and verbally transcribed by a research assistant.

The sub study confirms the presence of an innovative climate in the municipalities. The cases generate numerous examples of innovations that have been delivered to increase organizational performance but also contributed to the restoration of the fiscal deficit. Both procedural innovations (such as the introduction of data driven enforcement, or adjustments in citizen participation routines) and product innovations (such as the merger of multiple permits into one combined product, or the development of software applications) have been developed and implemented. If I focus on how the managers have created room for these innovations, a number of things stand out. First, the cases show that free-to-spend budgets for innovation (comparable to R&D budgets in the private sector) were lacking. The evidence demonstrates that the existence of such budgets is very unlikely in municipalities, in austere times but also in prosperous times. Therefore, instead of trying to establish a dedicated budget for innovation, the managers used other interventions to recover money from the organization (e.g. using unforeseen surpluses) to spend it on innovation. Second, the evidence shows that it was hard to allow a greater number of employees than was necessary to sustain routine operations during austerity. Instead of increasing and improving the work force by recruiting new people, therefore, the managers focused on the redeployment of existing staff that was redundant in one part of the organization but employable in other parts. This, in turn, enabled the participation of particular coworkers in prioritized innovation projects.

The main finding of this study, however, is that creating room for enduring innovation is not about creating *financial slack* or *human resource slack*, but about increasing the *mental leeway* of coworkers. The sub study demonstrates that innovation was not served by free-to-spend budgets or deployable staff, but by the degree to which individuals have free space in their minds. In the words of two city managers:

“It [innovation] is not about money or people. It is about the mentality of coworkers. It is about space in their minds. Innovation is not likely to increase when you give people free time. The Google hours so to say. I’ve never experienced the value of that. Why do breakthrough ideas always come from the same people, who are often the busiest of all?” (City manager, see chapter 6)

“Money is not interesting really. It is a lubricant and you need some of it in order to get things done. But I have never talked so little about money as the last few years. Because my experience has taught me that what is needed are other things.” (City manager, see chapter 6)

The quotations clarify the importance of a coworker’s mental leeway for practicing innovation. Given the convincing evidence from the twelve practices that the individual dimensions of slack were crucial for innovation, they were turned into a third type of organizational slack, which is specified in this book as *psychological slack*.

Because the city managers experienced the importance of psychological slack for innovation in their practices, they mainly invested in increasing the mental leeway of coworkers to stimulate enduring innovation. The evidence shows that the strategies of psychological slack-building, and the extent to which it was improved, varies from city to city. Nevertheless, the cases reveal that psychological slack was enhanced with five interventions, which largely resemble the key components of ‘positive psychology’: positive emotions, engagement, relationships, meaning and accomplishment (Seligman & Csikszentmihalyi, 2014). In short, the managers have put much effort in guaranteeing that their coworkers felt good and recognized the positive aspects of their work which took place in a rather pessimistic environment (positive emotions), that they found enjoyment in their work although this work often changed as a consequence of the GFC (engagement), that they operated in a climate of respect and mutual trust which allowed them to take risks and experiments (relationships), that they had a purposeful existence and felt that they were working for the people in the city (meaning), and that they had a sense of achievement even if experiments failed (accomplishment). The evidence demonstrates that creating room for enduring innovation requires a focus on alternative dimensions and perspectives: managers who balanced the costs of organizational slack and its innovative abilities, have developed and delivered more innovative output than managers who operated on a pure cost effectiveness paradigm.

I can use the insights from the chapters 5 and 6 to further advance our knowledge of the institutional capacities for innovative austerity management. In addition to deviate from mainstream responses (talk) and decipher challenges and take smart decisions, the findings from the chapters 5 and 6 demonstrate that *delivery* is crucial to actually make things happen. The evidence shows that specific resources were needed to implement a-typical change in an a-typical climate. Getting things done in the particular context of austerity required the competence to craft dynamic and changeable acts of implementation that fit the specific context (see also Lodge & Wegrich, 2014).

Another important insight from the sub studies is the finding that institutional capacities are not restricted to *physical resources* only such as free-to-spend budgets or spare staff capacity. On the contrary, the empirical data show that *psychological resources*, such as a mindset that is receptive for innovation, are perhaps more crucial for innovation than the existence of spare budgets or excess staff capacity. When addressing the importance of the different capacities of innovative austerity management, I refer to both physical and psychological resources.

### 7.3 Answering the main research question

Having provided an answer to the sub questions, I can now turn to the main research question and main conclusions of the research. I will first answer the central question in section 7.3.1 before establishing the most important conclusions of this research in section 7.3.2.

#### 7.3.1 Building capacities to innovatively cope with fiscal stress

In line with the study's objectives to identify the institutional capacities of innovative austerity management and show how municipalities (can) build such capacities, the main question was formulated as:

*How do municipalities build institutional capacities to innovatively cope with fiscal stress?*

The different sub studies that have been presented in this book offer a rich basis for answering this question. The first part of the answer concerns the question as to *whether municipalities have been focusing on changing institutional parameters* at all, or whether the dominant rules, norms and beliefs were stable resulting in the development of financial solutions. The empirical evidence of this study shows that

some municipalities have focused on non-financial ideas and concepts to deal with fiscal stress, but that most municipalities did not. The in-depth analysis of 1,737 austerity decisions reveals a clear and relatively stable preference for conventional solutions that fit with the financial performance perspective (chapters 3 and 4). The municipalities in this research typically opted for ‘fiscal cuts’ (e.g. cheese-slicing budgets, terminating third party grants), ‘fiscal change’ (e.g. fiscal engineering, raising taxes), and ‘organizational cuts’ (e.g. reducing levels of city maintenance, closing service points). Even when the talk of municipal officials (in interviews) suggested that their organization invested in innovation, most of the decided measures were financial. The vast majority of all austerity measures that have been deployed in municipalities in recent years refer to financial performance measures with safe and swift results. Apparently, municipalities face institutional constraints that ‘force’ them to take mainstream measures.

The dominance of conventional measures that fit financial performance logics, however, does not mean that municipalities have failed to focus on changing institutional constraints. In some municipalities, we find that an increasing share of *non-financial solutions* resulted in crucial changes to work processes, routines and cultures. For instance, by arranging austerity management as part of a comprehensive innovation practice (rather than organizing it as an isolated financial endeavor), municipal officials ‘broke with’ old habits and procedures. They stimulated the emergence of new routines and other mindsets that were more receptive to innovation (chapter 6). Although these changes were often very practical – e.g. vesting the responsibility for dealing with fiscal stress in a joint steering committee rather than in the financial alderman; ensuring that the team that prepared austerity solutions covered multiple fields of expertise rather than relying only on financial experts – they turned out to have a major impact on the *development of original ideas*, but also and maybe more importantly on the *coworkers’ mentality and dynamics in the organization*. Although this study does not show whether the institutional capacity has been permanently reinforced, it does show that the new setting stimulated people, for instance, to escape from the financial frame, to find ‘joy’ in an often ‘negative’ austerity atmosphere, to reflect on the changing environment and societal demands, and to develop innovative solutions (chapters 5 and 6).

The second part of the answer concerns *the interventions that municipalities have used* to build institutional capacities. Because this book assumed that the interventions to build the institutional capacities were linked to the talk, decisions, and acts municipalities produce, the focus was on the discursive, decisional and practical

interventions of municipal officials. The detailed answering of the sub questions confirms that municipalities indeed strengthened the institutional capacities with such interventions. But this does not mean that the municipalities in this study have always used discursive, decisional and practical interventions, or that a fixed set of interventions exists. On the contrary, this research finds that different municipal officials have used varying *mixes of interventions*. In some municipalities, for instance, discursive interventions were used to purposely break with dominant doctrines and strongly-held beliefs. In other cities, practical interventions were used to invest in strengthening the mentality of coworkers that were needed for the development and implementation of innovative ideas. Informed by the empirical findings, I argue that the relevance of specific interventions is time and place dependent.

These findings stress the importance of the *institutional perspective* on dealing with fiscal stress. The institutional perspective was developed to overcome the weaknesses of the financial performance perspective, i.e. its short-sightedness and single-loop orientation. This research shows that the financial perspective is indeed too limited and ignores important aspects of innovative austerity management, i.e. practicing innovation when the need is high and the chances are low, getting things done in an ambiguous context, and encouraging deep learning while quick results are expected. Practicing innovative austerity management, for instance, was only possible when municipal officials convinced others to tolerate serious *investments in organizational change and innovation* which clashed with the logics of straightforward deficit reduction (chapter 2 and 3). Furthermore, in order to deal with the *ambiguous context* of fiscal stress (a highly unpredictable and political context that produces many inconsistencies and dilemmas) and to find an exit for impossible issues, some municipal officials consciously turned away from local budgeting routines and domestic financial arrangements (chapter 4). The conventional routines did not provide them with proper hand rails to proceed into the right direction. But the outputs of innovative austerity management were multidimensional and difficult to summarize in a few concrete indicators. Rather than relying on familiar procedures and indicators, therefore, they judged success or failure on the quality of the process (chapter 5). As regards the importance of *deep learning*, this research shows that officials with a broader perspective used other interventions to strengthen the organization's ability to adapt to exogenous demands. Instead of focusing on financial improvements – i.e. creating bigger reserves to protect the organization from future drops in revenue – they invested in reinforcing the coworkers' mentality and dynamics

in the organization (chapter 6). By investing in repairing the underlying causes, instead of the performance problems identified, the officials have laid the foundation for a more structural improvement of the financial resilience.

The third and final part of the answer to the main research question concerns the interpretation of the *institutional capacities for innovative austerity management*. Informed by the literature, I expected that municipalities that want to cope more innovatively with fiscal stress would benefit especially from institutional capacities that facilitate the *exploration* of new knowledge, routines, cultures and mentalities. Instead of financial resources or performance systems, this refers to interpretative, social, relational abilities to respond to external challenges. The insights from this study can be used to construct a more comprehensive interpretation of the actions that are relevant for municipalities that are dealing with fiscal stress. The studies generate three abilities which contribute to innovative austerity management (see table 7.1). Although I stress that they are not necessarily present in each and every municipality, their presence has effects: municipal actors are able to lessen institutional constraints and make room for innovations.

**Table 7.1 Abilities for enhancing innovative austerity management**

Type	Definition
Deviate	Purposely moving beyond dominant doctrines and using unexplored concepts from different worldviews to create a fresh austerity narrative.
Decipher	Identifying potential innovations and translating them into concise austerity decisions that orchestrate innovation and clarify the financial impact of the proposed ideas.
Deliver	Crafting dynamic and changeable acts of implementation that fit with the specific context of austerity.

To begin with, *deviations* seem necessary to orchestrate innovation, especially by way of discursive interventions. This research shows that the competence of local politicians (or at least of coworkers in their proximity) to purposely move beyond the dominant doctrine and use unexplored concepts from different worldviews, was crucial for the development of new ideas that went beyond the exploitation of safe measures with short-term budgetary wins and minimal opposition (chapter 2).

Furthermore, *deciphering* challenges and measures seems relevant to facilitate innovation, especially by way of decisional interventions. We find that the ability of strategic coworkers to identify and tackle potential innovations and translate them into

concise austerity decisions that fit local circumstances was crucial enable innovation in the context of austerity (chapter 3 and 4). It links original and often relatively vague ideas into to-the-point decisions that shape further action.

Finally, *delivery* seems important to implement innovation, especially by way of practical interventions. This study shows that the ability of municipal managers and coworkers to craft dynamic acts of implementation that fit the specific context was crucial to deliver a-typical change in an a-typical context (chapters 5 and 6). Without delivery, innovative austerity management is limited to the identification and concretization of new ideas; the implementation of such ideas will lag behind.

### 7.3.2 Main conclusion: The austerity paradox

This book demonstrates the impact of the GFC on municipalities. Although the literature has argued that austerity management requires a ‘holistic approach’ with both financial and non-financial measures, the study shows that Dutch municipalities have mainly invested in conventional solutions that fit a financial performance logic. Municipalities focused on eliminating fiscal deficits to comply with national ‘balanced budget’ requirements and improving efficiency and effectiveness to meet with managerialized ideas of performance. Even though this strategy resulted in solving most of the discovered problems – the municipalities in this study have always managed to balance their budgets, no matter how large the deficits were – little was done to strengthen the institutional components that underlay these problems. This is an important finding because such a fixation on ‘short-term gapmanship’ (cf. Schick, 1980) will not bring long-term improvements aimed at making organizations ready for the future. Eventually, new crises and new deficits will arise.

The focus on short-term deficit reduction and the preference for predictable measures with safe financial results was partly determined by the conscious choice of local policy elites: they wanted quick budget fixes to restore compliance with national rules, and quick results to keep politicians secure in the saddle (chapters 2 and 5). But this research also shows that even when municipal officials wanted to use *non-financial* measures to deal with fiscal stress, innovative austerity management did not always occur. The *financial absorption power* caused many innovative ambitions to be nipped in the bud (chapters 3 and 4). The evidence shows that, as soon as the size and predictability of the available resources decreased, municipalities opted for obvious solutions despite innovative ambitions.

Nevertheless, I have also demonstrated that some municipalities and officials have escaped this ‘financial trap’ and used discursive, decisional, and practical interventions to deal with fiscal stress more innovatively. Although we do not know whether these municipalities are also able to deal more creatively with future crises, we show that in these municipalities crucial institutional changes have been made, strengthening the organization’s DNA and infrastructure. For instance, by consciously deviating from the dominant financial path or forming austerity teams with mixed expertise, municipal officials changed the routines of responding to *current* austerity, stretching the constraints, which also enable them to respond differently to *future* austerity practices.

The limited attention for the non-financial, institutional aspects of dealing with fiscal stress has several unintended consequences, threatening long-term (financial) resilience and innovation itself. The determined focus of municipal officials on restoring the fiscal balance has prevented them to purposively change the institutional rules, norms and beliefs of austerity management. But if these institutions end up as restricted and inflexible as they were before the crisis started, the organization has not gained much. This study shows that many municipal officials find themselves in what I call an ‘*austerity paradox*’: they deliberately use financial measures to create fiscal leeway, but when they use financial measures, leeway is declining.

Continuous austerity-seeking actions may not yield the most fiscal comfort in the long-run, or even in the short-run, when consciously pursuing austerity interferes with creating, maintaining and disrupting institutional structures that provide stability and meaning to municipal systems. This book shows that municipalities can ‘bounce forward’ from fiscal stress by opting for alternative solutions with fewer unintended consequences. The versatile nature of innovative austerity management requires that municipal officials also pay attention to the non-financial aspects of the phenomenon, such as climate, relations, team dynamics, and behavior. Financial resilience will occur when institutional rules and routines are followed, also in order to change them.

#### 7.4 Academic implications

This book combines insights from public management, austerity management and innovation to investigate municipal austerity practices and effects. The results are valuable for academia in a number of ways. The main theoretical and research implications are elaborated below.



#### 7.4.1 Theoretical implications

This study has implications for the literatures on public financial management (PFM), public innovation, and public management. First, it contributes to the *PFM literature* that austerity and fiscal stress should not be considered exclusively as temporary financial problems that require quick technical and instrumental solutions. Many PFM scholars, who typically conduct their discussions in outlets such as the *Journal of Public Budgeting Accounting and Financial Management* and *Public Money & Management*, exhibit a strong preference for financial ways of coping with fiscal stress and austerity (e.g. Schick, 1989; Cepiku & Savignon, 2012; Ahrens & Ferry, 2015). Indeed, recent studies continue to stress that the best ways to prepare for new financial crises are the establishment of financial buffers to protect organizations from future drops in revenue (Zhang, 2015) and the improvement of forecasting instruments (Trussel & Patrick, 2013). The dominant financial-performance perspective in recent PFM studies shows that the financial absorption power of fiscal stress also applies to scholars who investigate the phenomenon. This book encourages them to overcome the austerity paradox themselves. Only until scholars embrace a more comprehensive perspective, valuable understandings arise of how municipalities cope and can cope with fiscal stress. This book goes beyond the dominant technical financial insights by showing that municipalities can bounce forward from crises – rather than bounce back – by focusing on *non-financial solutions to cope with fiscal stress*, including the stimulation of product and process innovation and creative behavior. The insights from this study are theoretically innovative because they highlight the importance of the social and psychological components of austerity management which are crucial for improving financial resilience and long-term performance.

Second, this study contributes to the *literature on public innovation* that innovative austerity management is both about ‘balance-restoration’ and ‘practicing innovation’. The attention from public innovation scholars, publishing in outlets such as the *Journal of Public Administration Research and Theory* and *Public Management Review*, for innovation as a crucial component of austerity management was omnipresent (e.g. Kiefer et al., 2015; Schmidt, Groeneveld & Van de Walle, 2017). When discussing innovation in the context of austerity, the focus is often on the *innovation* part of innovative austerity management. This is the case, for instance, when scholars focus on the processes of improving products and services to increase efficiency and reduce expenditure (e.g. Pollitt 2010; Gillinson, Horne & Baeck, 2010). This book goes beyond this one-dimensional perspective by showing that innovative

austerity management is not only about *innovation* but also about *austerity*. This study argues that innovative austerity management is as much about ‘innovation as a cost-cutting activity’ as it is about ‘cost-cutting as an innovative activity’. Ample evidence from the sub studies, such as finding new ways to allocate costs in interorganizational networks or digitizing the financial administration, indicate that innovative austerity management has been an indisputable act of innovation itself. This insight is theoretically original because it expresses that the appearances of innovation in austerity practices are more comprehensive than just searching for new ways to drive costs down.

Third, this research contributes to the *public management literature* that austerity is as much a public management issue as it is a PFM issue. Despite the unmistakable impact of the GFC on municipalities and other public organizations, many public management scholars have not paid any attention to austerity management. Although the number of publications about austerity in important journals, such as *Public Administration*, *Public Administration Review* and *Governance*, have increased in recent years, the total share remains very low (see also chapter 2). This is problematic because this study demonstrates that there are more aspects to austerity management than just the financial aspects. It shows that a limited financial perspective is likely to leave the organization in a less advantageous position. The current financial reality has fundamentally changed the functioning of municipalities. Austerity management, therefore, is too important to leave to financial experts only. This book shows that some public managers have dealt with the austerity paradox and successfully combined the financial and non-financial aspects of austerity management. This insight is important because the widespread adoption of innovative austerity management will only occur until generalist public management scholars pay more attention to specialist subjects and deploy their range of instruments and theories also to ‘financial’ practices.

#### 7.4.2 Research implications

Having provided the most important theoretical implication of this study, I can now focus on outlining the research agenda. I focus on the most pressing questions that arise from this study and might inform future researchers in the fields of PFM, public innovation and public management.

First, this study demonstrates the importance of non-financial austerity measures to bounce forward from fiscal stress and ensure that the organization is able to

performance effectively and efficiently in an environment of continuous scarcity. Although the idea of considering austerity management within broader reorganization dynamics and the movement of governments from one status to another is not new (e.g. Light, 1997; Bozeman, 2010), the evidence in this study demonstrates that it did not much influence the austerity management practice yet. Nevertheless, I confirm that some municipalities have exceeded the financial reflex and explicitly invested in building and organizing new knowledge relating to their functions and culture, including the mindset of coworkers. The evidence shows that some municipalities have enhanced their institutional capacities in order to develop and deliver product and process innovations. I do not know, however, if the improved capacities also ensure that these municipalities are now better able to deal with future crises. One first meaningful avenue for further research would be to scrutinize future austerity practices and compare the municipal responses of the municipalities in the network on innovative austerity management with other large municipalities in the Netherlands and abroad. Such studies are valuable for the PFM literature because they *provide insights into the lasting effect* of innovative austerity management.

Second, this study highlights the importance of psychological slack for public innovation. Informed by the findings in this study, I argue that stimulating innovation in the public sector is not about establishing free-to-spend budgets or allowing excess staff capacity, but about increasing the mental leeway of coworkers. I have tried to clarify the intangible concept of psychological slack in this book, by focusing on the practical behavior of individuals who apparently possess psychological slack. I show that the strategies that municipal officials use to increase psychological slack resemble the key components of ‘positive psychology’ (Seligman & Csikszentmihalyi, 2014). It remains unclear, however, how the concept of psychological slack can actually be measured. I have introduced a number of potential indicators in chapter 6, but an important future research direction may be to *operationalize psychological slack* to make it suitable for empirical research. Such studies are valuable for the literature on public innovation because they enable the quantitative inquiry of the effect of psychological slack on innovation, in addition to the existing knowledge about the relationships between financial slack and innovation, and HR slack and innovation.

Third, this study focused on the discursive, decisional and practical interventions of innovative austerity management. It demonstrates the importance of each intervention on the course of action. One shortcoming of this study is that I did not investigate the relationship between talk, decisions, and action in one single municipality. In itself this is not problematic because Brunsson (2002) argues that

words and deeds are often dissimilar. He states that one way for organizations to deal with conflicting interests is by developing inconsistent talk, decisions, and acts. The evidence in this book, however, suggests that austerity talk, decisions, and acts are often linked to each other. Drawing on the findings from the sub studies, I tentatively argue that austerity talk, decisions and actions are self-reinforcing. In one study, for instance, I find that only if policy elites talked about austerity in innovative ways, innovation-oriented measures were established. In addition, in another study in another municipality, I find that only if concise decisions were formulated, innovative acts appeared. Future research, therefore, may want to address *the relationship between austerity talk, decisions, and acts* to disentangle their interconnectedness. Such studies are valuable for the public management literature because they contribute to the understanding of dealing with multiple conflicting logics that arise when dealing with fiscal stress.

## 7.5 Societal implications

This book addresses a key issue in contemporary society: dealing innovatively with the consequences of the GFC. The outcomes are important for society in a number of ways. The main policy and practical implications are elaborated below.

### 7.5.1 Policy implications

This study has two important implications for society and policy elites. First, it indicates that approaching fiscal stress as an isolated technical fiscal phenomenon is not beneficial for solving the problem. The sub studies show that when the size and predictability of a municipal budget decrease, politicians typically opt for safe fiscal measures that provide quick financial returns. This book, however, adds to the debate that unless society and policy elites broaden their perspective, long-term success will remain elusive. Policy elites can use the insights from this research to overcome the austerity paradox and convince the public of the value and logic of a broader approach to austerity management; an approach that might come at the cost of temporary shortages. By stressing the importance of the non-financial aspects of austerity management, such as innovation and behavioral change, the policy elites might convince society to judge not only the short-term financial results, but also their efforts to improve enduring organizational performance, including financial resilience. Conversely, societal interest groups can use the findings to persuade policy elites to adopt a broader perspective if they feel that the elites linger in straightforward and inadequate measures such as cheese-slicing and raising taxes. This book does not

suggest that technical fiscal measures are unnecessary; it shows that municipalities can *combine financial and non-financial measures* to rebalance the budget in the short-term, and at the same time facilitate the creation of structural fiscal leeway that enables municipalities to deal with contingencies.

Second, the results of this study will inform policy makers in ways that differentiate thinking about austerity management. Until now, the dominant thinking of policy makers relating to austerity and financial resilience is often restricted to accounting-related indicators, such as the level of reserves and debts, and unused tax capacity. This book supports the development of alternative management tools to improve the resilience of municipalities, but also addresses the weaknesses of recently developed tools. For instance, one index that has been proposed in the UK by the influential Chartered Institute of Public Finance and Accountancy focuses on six indicators to measure the financial resilience of municipalities, such as the level of total reserves, and the ratio of governments grant to net revenue expenditure (CIPFA, 2018). Although these indicators are logical and valuable in themselves, the results of this study demonstrate that a limited financial perspective will not bring long-term financial resilience. Given the ambitions of the policy makers to improve municipal resilience, they can use the insight from this study to *include crucial, non-financial indicators in indexes* that monitor the financial resilience of public organizations, for instance indicators related to psychological slack (see chapter 6).

#### 7.5.2 Practical implications

Finally, this research has implications for municipal practitioners, including politicians, city managers and project managers. This book will inform politicians about the limitations and unintended consequences of ‘financial’ austerity management. Politicians can use the insights from this study to acquire information about how to recognize the financial absorption power and the austerity paradox, and to learn how they can consciously deviate from fiscal path and improve the long-term effectiveness and efficiency of the municipality. The detailed sub studies demonstrate how other politicians have created a new narrative and how this reframing paved the way for innovation (see chapters 2-4). City managers might use the insights from this study to learn how they can stimulate innovation while dealing with fiscal stress. Especially the insights from chapter 6 can inform them about the ways in which some of their colleagues have created lasting innovation by focusing on the psychological dimensions of innovative austerity management. Project managers will likely benefit

from the insights in the dynamic and changeable acts of the successful implementation of austerity-driven change (see chapter 5).

The results of this book demonstrate that innovative austerity management is more than a financial-technical endeavor. Increasing the ability of municipal officials to innovatively deal with fiscal stress, requires that associations – such as the Dutch Association of City Managers (*Vereniging Gemeentesecretarissen*) – use this study to develop alternative management development programs that focus specifically on the non-financial components of austerity management, including stimulating product and process innovation and innovative behavior.

### 7.6 Concluding remarks

This book addresses an important issue in contemporary society: strengthening organizational and financial resilience amidst crises. The empirical evidence shows that dealing with fiscal stress generates a *paradoxical challenge*: in order to create financial leeway, municipalities have to invest in non-financial measures. Instead of solving the problems related to finance and organizational performance, municipalities have to invest in strengthening institutional mechanisms that underlay these problems. Municipal officials have to invest in stretching and overcoming institutional constraints which at first sight provide stability and meaning to municipal austerity management.

Focusing on these non-financial dimensions of fiscal stress, however, is difficult. Municipal officials who want to practice *innovative austerity management* must be courageous and confident. They must be able to deal with the austerity paradox and convince other stakeholders that investing in innovation and behavioral change is crucial for the long-term viability of the organization. Backed by the research presented in this book, I hope to convince municipal stakeholders that austerity management is not an exclusive financial endeavor, but that the social dynamics and psychological aspects are equally important.

Academics need to be courageous and confident as well. Academic understanding calls for connections between insights from different literatures, including public management, public finance, innovation and psychology, literatures that are not often and not easily connected. Based on the findings in this study, I advocate a more comprehensive approach to fiscal stress. Instead of accentuating the *fiscal* in fiscal stress, scholars and practitioners also need to focus on *stress*. Connecting financial

insights to managerial, organizational and psychological insights is logical, but requires innovative action.







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## **The Austerity Paradox: How Municipalities (Can) Innovatively Cope with Fiscal Stress**

Ten years ago, in the autumn of 2008, *Lehman Brothers* has to file for bankruptcy. This bankruptcy, the biggest in history, is often considered as the inflection point of a series of financial-economic crises. These crises (e.g. banking crisis, credit crisis, economic crisis, Eurocrisis) seriously impact the budget, performance, and routines of many organizations. This book focuses on the impact of these crises on municipalities. Municipalities are forced to increase spending, for instance on social benefits and economic reinforcement. But at the same time, they are dealing with declining income, for instance because national transfers diminished and revenue from construction lands are lower than expected.

I argue that fiscal stress is neither a *financial problem* nor a *performance problem*, but an *institutional problem*. When municipalities respond to environmental discontinuities, they move beyond fiscal craftsmanship and/or performance maximization, towards building institutional capacities to deal with (fiscal) crises in innovative ways. Specific actions are used to stretch the constraining rules, norms, and beliefs of dealing with fiscal stress. By loosening institutional parameters, municipalities can both deal differently with the current crisis and create room to deal differently with future crises.

The aim of this book is twofold. The first aim is to identify the institutional capacities that facilitate adaptive innovation while dealing with fiscal stress. The second aim is to show how municipalities build and can build such capacities. This leads to the following main research question:

***How do municipalities build institutional capacities to innovatively cope with fiscal stress?***

Since I assume that the interventions of municipal actors to build such capacities relate to the actions municipalities produce – i.e. talk, decisions, acts (Brunsson, 2002) – the focus is on the *discursive*, *decisional*, and *practical interventions*. Discursive interventions refer to the activities of municipal officials to introduce new ideas and unexplored concepts in the local discourse. Decisional interventions refer to the activities of municipal officials to make concise decisions that enable the exploration of innovative solutions. Practical interventions refer to the activities of municipal officials to implement innovative decisions. This thesis conceptualizes these three



types of interventions through different theoretical lenses and explores them empirically through a series of (comparative) case studies.

#### Building capacities by way of discursive interventions

To clarify how municipalities build institutional capacities by way of *discursive interventions*, I examine the rhetoric of *local politicians*. When responding to crises, one of the first things for them to do is to develop appropriate talk. Talk is important since it sets great store of how to address particular issues. Rhetorical novelty is considered important because, informed by the literature, I assume that creating a ‘fresh’ narrative resets the agenda and opens up new routes, in the light of contextual changes.

In chapter 2, I focus on the *austerity frames* that local politicians use when communicating with the public the need for and direction of innovation. *Cultural Theory* (e.g. Douglas, 1982; Thompson, Ellis & Wildavsky, 1990) is used to develop four different austerity frames. A comparative case study approach is used to uncover the usage of frames and test two expectations. One expectation suggests that the individualist frame is omnipresent in NPM-minded climates whereas it is largely absent in NPM-skeptic climates. The other expectation suggests that more than one austerity frame is present in the debates by which local policy elites attempt to set the agenda and pave the way for broader innovation. To test the validity of the expectations, the rhetoric of the political leadership in Birmingham (UK), Cologne (Germany), and Rotterdam (Netherlands) is studied. Data are sought from thirteen extensive austerity speeches. The research confirms the modest contribution of the individualist frame in NPM-sceptic Cologne, but finds no evidence of individualist dominance in NPM-minded Birmingham (expectation 1). Furthermore, I show that the leaders in Birmingham and Rotterdam combine elements of multiple frames so as to create a new promising narrative which opens up routes towards innovation (expectation 2). The development of democratic and participatory improvements in individualist Birmingham, for instance, is only possible because the leader keeps accentuating unfamiliar aspects, such as greed, fairness and the abuse of power, in the local debate. Other evidence shows that the diverse frame use by the politicians in Rotterdam enables the development of efficiency-related improvements and procedural improvements in a prevailing egalitarian climate. This study adds to the literature the need for ‘frame flexibility’ to deal with the complexities of coping with the fiscal crisis in ways that are logical and innovative.

### Building capacities by way of decisional interventions

To clarify how municipalities build institutional capacities by way of *decisional interventions*, I examine the nature of austerity plans and the processes of decision-making. Since austerity decisions are normally included in the budgetary process, I focus on the decisional interventions of *local policy elites*, such as mayors, council members, aldermen, and city managers. When confronted with crises, these policy elites will consider what *responses* will be for the best, make up their minds and present the decisions to the municipal bureaucrats, whose job is then to carry out the decisions. As such, decisions are the coupling mechanism between words and deeds. The development of particular decisions is considered important because I expect that innovation-oriented decisions will motivate or force bureaucrats to develop and deliver unconventional ideas.

In chapter 3, we uncover different responses to fiscal stress (decisions). We show how municipalities can deal with fiscal stress, and what decisions are innovative. The study relies on a review of 46 scholarly publications and develops a classification of responses. Informed by the literature on fiscal stress, austerity, and cutback management in the public and private sector, four responses are distinguished: ‘organizational cuts’ (e.g. ending policies, closing service points), ‘fiscal cuts’ (e.g. even-percentage-cuts-across-the-board, terminating third-party grants,), ‘fiscal change’ (e.g. fiscal engineering, raising taxes), and ‘organizational change’ (e.g. optimizing work processes, changing routines). We explore the empirical value of the classification by studying deployed measures in eight Dutch municipalities. Quantitative data are sought from austerity plans and budget books (2010-2011); qualitative data are sought from interviews with fifteen practitioners. The main finding is that, rhetorically, municipalities are innovative. Talk indicates austerity management through organizational measures and innovations, not with fiscal measures. In reality, however, most municipalities predominantly use fiscally-oriented measures that tend towards stability. This study adds to the literature that austerity can be managed by four archetypical responses and that Dutch municipalities have a preference for fiscal measures. We also demonstrate that innovative talk does not automatically lead to innovative decisions.

In chapter 4, we uncover the relationships between the institutional system and the nature of austerity plans. Pollitt & Bouckaert’s (2011) renowned decision-making framework is used to identify how municipalities deal with fiscal stress and study how austerity decisions are affected by the politico-administrative system. The study is

built around a cross-national comparative case study approach to reveal the influence of five institutional aspects: (1) financial autonomy, (2) austerity conventions, (3) aldermen-mandarin relations, (4) administrative culture and (5) sources of ideas. It relies on the austerity practices of five Dutch municipalities and five North-Rhine Westphalian (NRW) municipalities. Quantitative data are sought from austerity plans and budget books (2010-2012). The main finding is that there is an important difference in preferred strategies to deal with fiscal stress. Dutch municipalities use the crisis as an opportunity to realize reforms, whereas NRW municipalities regard the challenge as a temporary issue and choose fiscal discipline and stability. This study adds to the literature that, although municipalities across the globe superficially seem to deploy similar measures, their actual responses are much more diverse. We highlight the importance of the institutional system on the directions of austerity management. We show that politico-administrative aspects – especially financial autonomy and administrative culture – stimulate or prevent sweeping reforms.

#### Building capacities by way of practical interventions

To clarify how municipalities build institutional capacities by way of *practical interventions*, I examine the implementation practice. Since change implementation is often led by a career servant (Moynihan, 2005), I focus on the practical interventions of *bureaucratic implementers*, such as city managers, and program and project managers. When municipalities aim to overcome the crisis innovatively, one of the most important things to do is to actually develop and execute original solutions. Action is important because it turns ideas into reality. Atypical action is expected because I assume that the exploration and implementation of unknown solutions under dire circumstances clashes with the need for safe and swift financial returns. In two sub studies, I investigate how the officials execute innovation-oriented decisions, and whether they manage to create room for lasting innovation while dealing with fiscal stress.

In chapter 5, I uncover the determinants of the successful implementation of austerity-driven change. I describe and interpret the apparently successful implementation in a big Dutch municipality and relate it to the eight determinants of successful organizational change in public organizations that have been distinguished by Fernandez & Rainey (2006). The study is built around a single case study approach to record the circumstances, strategies, and motivations to create a ‘thick description’ that characterizes this particular case. It relies on the experiences of 65 coworkers that are involved. Supplemental data are sought from more than hundred formal and

informal documents about the change event. The main finding is that not all generic determinants of successful change are fulfilled and that three alternative catalysts are crucial for change implementation during austerity. I call them the ‘acts of implementation’. I tentatively argue that implementors who operate in the context of austerity should (a) accept and use political interference, (b) anticipate resistance to change, and (c) accentuate multiple aspects of success. The chapter sheds a more nuanced light on the organizational change literature and makes the acts of implementation meaningful for a wider public. Successful implementation of austerity-driven changes is not so much a matter of complying with generic success conditions, but of crafting acts that fit with the specific context.

In chapter 6, I uncover the right type of organizational slack for innovation. The insights from the ‘organizational slack and innovation’ literature (e.g. Nohria & Gulati, 2006; Herold *et al.*, 2006) are used to examine how city managers conceive slack, and how they create slack to facilitate innovation while dealing with fiscal stress. The study is built around a comparative case study approach to uncover contrasts, similarities, and patterns of slack-building for innovation in austere times. It relies on the experiences of twelve experienced city managers. Data are sought from elite interviews and one focus group. The main finding is that innovation in the public sector does not benefit from slack in general, but from a specific type of slack. The evidence shows that useful slack for innovation is not so much about financial slack or HR slack, but about psychological slack. This study adds to the literature that the key questions of slack research should not only focus on identifying the ‘right amount’ of slack but also on identifying the ‘right type’ of slack. Public managers who want to deal with (fiscal) crises more innovatively might reconsider their perceptions of slack and its value. Rather than operating on a pure cost effectiveness paradigm, they should balance the costs of slack and its innovative abilities. In this chapter I highlight the social and psychological sides of austerity management. I conclude that increasing the ability of public organizations to innovatively cope with fiscal stress is not so much about increasing predictive capacity or financial buffers, but about increasing the mental leeway of coworkers.

### Main findings

With respect to the *discursive interventions* this study shows that some politicians establish a new narrative that offers leeway for innovative austerity management. The ‘flexible framing’ of these politicians – i.e. their use of multiple austerity frames – causes the topics and tone of the debate to change. The increased focus on new

concepts and other explanations then leads to the development of new ideas. I therefore argue that we should move away from a static focus on ‘frames’ towards a more dynamic understanding of the ‘framing process’. This research shows that rhetorical novelty is a prerequisite for the actual development of original solutions.

With respect to the *decisional interventions* I show that municipalities prefer short term financial measures to deal with fiscal stress. However, the research also demonstrates that some municipalities deploy particular decisions that orchestrate innovation. The empirical evidence shows that the development of concise decisions is essential to proceed with innovation.

With respect to the *practical interventions* I show that the successful implementation of austerity-driven changes requires that bureaucrats *craft dynamic and changeable acts* that fit the specific context. In addition, I show that creating room for enduring innovation is not about creating *financial slack* or *human resource slack*, but about strengthening the *mental leeway* of coworkers. This study shows that managers who balance the costs of slack and its innovative abilities, develop and deliver more innovative output than managers who operate on a cost effectiveness paradigm.

The main research question focuses on the interventions by which municipalities (can) build institutional capacities to innovatively deal with fiscal stress. The findings confirm that *some municipalities use non-financial measures* to deal with fiscal stress, but that most municipalities do not. I explain how these non-financial solutions result in changes to work processes, routines and cultures. Although such changes are often very practical – e.g. vesting the responsibility for dealing with fiscal stress in a joint steering committee rather than in the financial alderman; ensuring that the team that prepares austerity solutions covers multiple fields of expertise in rather than relying only on financial experts – they turn out to have a major impact on the development of original ideas, but also and maybe more importantly on the *coworkers’ mentality and dynamics in the organization*. The study shows that discursive, decisional and practical interventions are not always used in every practice, and that a fixed set of interventions does not exist. As a final point I disclose three particular abilities for enhancing innovative austerity management. More innovative responses to fiscal stress can be established when municipalities:

1. purposely move beyond dominant doctrines to create a fresh narrative, when they *deviate*;

2. identify and translate potential innovations into concise austerity decisions that orchestrate innovation and clarify the financial impact, when they *decipher*; and
3. craft dynamic and changeable acts of implementation that fit with the specific context of austerity, when they *deliver*.

### The austerity paradox

As the main conclusion of this dissertation, I place emphasis on what I call ‘The Austerity Paradox’. This paradox suggests that opting for financially driven austerity actions does not really enable municipalities to deal with financial challenges. When financial crises are mainly seen as financial, it is difficult to create long-lasting solutions that alleviate financial problems. When institutional patterns are maintained instead of recreated or disrupted, municipalities are not able to respond to external challenges in ‘deeper’ ways. Informed by the evidence in this research, I argue that municipalities can ‘bounce forward’ from fiscal stress by opting for alternative solutions when municipal officials pay attention to the non-financial aspects of the phenomenon, such as new *knowledge, rules, routines, cultures and mentalities*.

This research has several academic and societal implications. Firstly, it contributes to the *literature* (1) that austerity and fiscal stress should not be considered exclusively as temporary financial performance problems that require quick technical and instrumental solutions, (2) that innovative austerity management is as much about ‘innovation as a cost-cutting activity’ as it is about ‘cost-cutting as an innovative activity’, and (3) that austerity management is way too important to leave to financial experts only. In terms of *research*, the study demonstrates the importance (a) of non-financial austerity measures to bounce forward from fiscal stress, (b) of psychological slack for public innovation, and (c) of talk, decision and acts on the course of action. It contributes to *democratic debate* by stressing the importance of broader societal and policy (elite) perspectives. Finally, the chapter deals with the *practical contributions*, showing how practitioners can use the insights from this book to learn how to stimulate innovation while dealing with fiscal stress. With an emphasis on *fiscal stress* instead of *fiscal stress*.









## **De bezuinigingsparadox: Hoe gemeenten vernieuwend (kunnen) omgaan met begrotingsstress**

Tien jaar geleden, in de herfst van 2008, gaat de Amerikaanse investeringsbank *Lehman Brothers* failliet. Het grootste faillissement in de geschiedenis wordt vaak beschouwd als het startpunt van een aantal opeenvolgende financieel-economische crises. Deze crises (bankencrisis, kredietcrisis, economische crisis, Eurocrisis) zijn van invloed op de financiën, prestaties en routines van uiteenlopende organisaties. Dit boek richt zich op de impact van financieel-economische crises op gemeenten. Gemeenten worden gedwongen om meer geld uit te geven, bijvoorbeeld aan uitkeringen en het versterken van de regionale economie. Anderzijds worden ze geconfronteerd met opdrogende inkomsten, bijvoorbeeld door wegvallende rijksuitkeringen en tegenvallende grondopbrengsten. De combinatie van toenemende uitgaven en afnemende inkomsten leidt tot aanzienlijke tekorten op de begroting. Ik duid dit fenomeen als ‘begrotingsstress’ en laat in dit boek zien hoe gemeenten hiermee omgaan.

Ik beargumenteer dat begrotingsstress niet zozeer een *financieel probleem* of een *prestatieprobleem* is, maar een *institutioneel probleem*. Gemeenten die begrotingsstress als een institutioneel probleem beschouwen gaan verder dan financieel vakmanschap en/of het verbeteren van de efficiëntie van de organisatie. In plaats daarvan besteden ze aandacht aan het bouwen van institutionele capaciteiten die hen helpen om op een ‘vernieuwende’ manier met crises om te gaan. Met specifieke acties proberen ze de beperkende regels, normen en overtuigingen van bezuinigingsmanagement op te rekken. Hierdoor kunnen ze anders omgaan met de voorliggende crisis, en ontstaat ruimte om anders om te gaan met toekomstige (financiële) crises.

Het doel van dit onderzoek is tweeledig. Enerzijds het identificeren van de institutionele capaciteiten die nodig zijn om innovatie te stimuleren tijdens het omgaan met begrotingsstress en anderzijds het laten zien hoe gemeenten deze capaciteiten (kunnen) bouwen. De volgende onderzoeksvraag geeft richting aan het onderzoek:

***Hoe bouwen gemeenten institutionele capaciteiten om op een vernieuwende wijze om te gaan met begrotingsstress?***

Omdat ik aanneem dat de interventies van gemeentelijke spelers om institutionele capaciteiten te bouwen, samenhangen met de drie soorten acties van gemeenten

– retoriek, besluiten en actie (Brunsson, 2002) – richt ik me in vijf deelstudies op hun *discursieve, decisionele* en *praktische* interventies. Discursieve interventies verwijzen naar de activiteiten van lokale politici om nieuwe ideeën en onontdekte concepten in het lokale discours te introduceren. Decisionele interventies verwijzen naar de activiteiten van de lokale beleidselite om ondubbelzinnige besluiten te ontwikkelen die innovatie in de hand werken. Praktische interventies verwijzen naar de activiteiten van gemeentelijke (top)ambtenaren om vernieuwende besluiten te implementeren. Ik gebruik de wetenschappelijke literatuur om deze interventies verder te verduidelijken en ze hanteerbaar te maken voor empirisch onderzoek in de vorm van (vergelijkende) *case studies*.

#### Innovatieve capaciteiten bouwen met discursieve interventies

Om duidelijk te maken hoe gemeenten de institutionele capaciteiten van vernieuwend bezuinigen bouwen met *discursieve interventies*, kijk ik naar de *retoriek van lokale politici*. Een van de eerste dingen die politici doen als ze te maken krijgen met een crisis, is het ontwikkelen van een passend verhaal. Retoriek is belangrijk omdat het een groot stempel drukt op latere reacties en acties. Retoriek geeft richting aan besluitvorming en verdere activiteiten. Ik verwacht dat de taal en verhalen van politici veranderen, om zo nieuwe thema's op de beleidsagenda te krijgen en de weg vrij te maken voor andersoortige, niet-financiële oplossingen.

In hoofdstuk 2 bestudeer ik de *bezuinigingsframes* waarmee lokale politici de noodzaak tot en richting van innovatie communiceren. Met behulp van *Cultural Theory* (Douglas, 1982; Thompson, Ellis & Wildavsky, 1990) onderscheid ik vier bezuinigingsframes. Vervolgens gebruik ik een vergelijkende casestudy om de aanwezigheid van die frames bloot te leggen en twee verwachtingen te testen. Geïnspireerd door de *New Public Management* literatuur (NPM, bijv. Hood, 1990; Diefenbach 2009) verwacht ik dat het individualistische frame veelvuldig voorkomt in gemeenten in landen die NPM stevig hebben omarmd (zoals het Verenigd Koninkrijk) en veel minder in landen die sceptischer zijn tegenover NPM (zoals Duitsland). Daarnaast verwacht ik dat politieke leiders bewust meerdere frames gebruiken om zo ruimte te scheppen voor andersoortige reacties op begrotingsstress. Om beide verwachtingen te testen, bestudeer ik de retoriek van de politieke leiders in Birmingham (Verenigd Koninkrijk), Keulen (Duitsland) en Rotterdam (Nederland). De onderzoeksdata haal ik uit dertien omvangrijke bezuinigingspeeches.

Het onderzoek laat een bescheiden bijdrage zien van het individualistische frame in NPM-sceptisch Keulen, maar vindt geen overtuigend bewijs voor individualistische dominantie in NPM-gezind Birmingham (verwachting 1). Ook blijkt dat alleen de leiders in Birmingham en Rotterdam verschillende frames combineren om een nieuw, inspirerend bezuinigingsverhaal te creëren dat de weg opent naar innovatie (verwachting 2). Het onderzoek laat zien dat deze verhalen ontstaan als politici onbekende concepten en ideeën uit andere frames vervlechten met het bestaande verhaal. Hierdoor ontstaat er ruimte voor het ontwikkelen van andere maatregelen. Doordat de leider in Birmingham veel nadruk legt op ‘vreemde concepten’ als ‘hebzucht, eerlijkheid en machtsmisbruik’, ontstaat er ruimte voor participatieve innovatie in een individualistische context. Ook in Rotterdam is er sprake van gevarieerde *framing*. De stijgende aandacht voor achterblijvende overheidsprestaties en het slecht nakomen van regels, biedt in de egalitaire context ruimte voor het ontwikkelen van efficiëntie- en regulering-gerelateerde innovaties. Deze bevindingen wijzen op het belang van deze zogenaamde ‘frame flexibiliteit’ om de weg vrij te maken voor het ontwikkelen van innovatieve antwoorden op begrotingsstress.

#### Innovatieve capaciteiten bouwen met decisionele interventies

Om duidelijk te maken hoe gemeenten de institutionele capaciteiten van vernieuwend bezuinigen bouwen met *decisionele interventies*, kijk ik naar het karakter van bezuinigingsbesluiten en het proces van besluitvorming. Omdat besluitvorming over (omgaan met) begrotingsstress vaak onderdeel is van het reguliere begrotingsproces, focus ik op de decisionele interventies van de *lokale beleidselite* (bijv. burgemeester, wethouders, raadsleden en gemeentesecretaris). Wanneer zij geconfronteerd worden met een crisis, weegt de beleidselite de opties af en maakt zij een keuze over de meest geschikte reacties. Het ontwikkelen van deze keuzes is belangrijk omdat besluiten de verbinding zijn tussen de retorische acties en de praktische acties van de gemeente. Ik verwacht dat gemeenten specifieke ‘vernieuwende bezuinigingsbesluiten’ formuleren, om zo ambtenaren te dwingen of te motiveren om onconventionele ideeën te ontwikkelen.

In hoofdstuk 3 ontwikkelen we allereerst een classificatie van bezuinigingsbesluiten. Deze classificatie maakt duidelijk hoe gemeenten kunnen omgaan met begrotingsstress en welke besluiten meer of minder innovatief zijn. Op basis van een literatuuronderzoek (bijv. Raudla et al., 2015, Dunsire & Hood, 1989; Cameron, 1993) ontwikkelen we vier verschillende besluiten: ‘*organizational cuts*’ (snijden in

de organisatie, zoals het beëindigen van beleid of het sluiten van balies), *'fiscal cuts'* (snijden in budgetten, zoals kaasschaven of het beëindiging van subsidies), *'fiscal change'* (financiële veranderingen, zoals het toepassen van begrotingstrucen of het verhogen van belastingen) en *'organizational change'* (organisatieverandering, zoals het optimaliseren van processen of het veranderen van de organisatiecultuur). We onderzoeken de empirische waarde van deze classificatie door bezuinigingsmaatregelen te bestuderen in acht Nederlandse gemeenten en deze te plotten in de classificatie. We baseren ons op kwantitatieve informatie uit bezuinigingsplannen en begrotingen (in 2010-2011) en vullen deze data aan met kwalitatieve informatie uit vijftien interviews. De belangrijkste bevinding is dat gemeenten vooral retorisch vernieuwend zijn. De retoriek die de gemeentelijke spelers gebruiken, duidt op bezuinigen door middel van organisatieveranderingen en innovatie, in plaats van 'platte bezuinigingen'. De kwantitatieve informatie laat echter zien dat de meeste gemeenten vooral financiële bezuinigingsbesluiten gebruiken. Dit onderzoek laat zien dat er vier typische manieren zijn om met begrotingsstress om te gaan en dat gemeenten een voorkeur hebben voor behoudende financiële maatregelen. Het laat ook zien dat vernieuwende retoriek niet automatisch leidt tot vernieuwende besluiten.

In hoofdstuk 4 onderzoeken we de relaties tussen de institutionele setting en de aard van bezuinigingsplannen. We bestuderen opnieuw hoe gemeenten omgaan met begrotingsstress (met behulp van dezelfde classificatie en een grotere dataset) en analyseren hoe de besluitvorming wordt beïnvloed door de setting. We gebruiken daarvoor het bekende besluitvormingsmodel van Pollitt & Bouckaert (2011). Met een internationaal vergelijkende casestudy leggen we de invloed van vijf institutionele aspecten bloot: (1) financiële autonomie, (2) bezuinigingsconventies, (3) bestuurder-ambtenaar-relatie, (4) organisatiecultuur en (5) ideeënbronnen. We vergelijken bezuinigingspakketten van vijf Nederlandse gemeenten en vijf gemeenten in Noordrijn-Westfalen (NRW). We halen de kwantitatieve onderzoeksdata uit gemeentelijke bezuinigingsplannen en begrotingen in de periode 2010-2012. De belangrijkste bevinding is dat Nederlandse en NRW-gemeenten op een andere manier omgaan met begrotingsstress. Nederlandse gemeenten grijpen de financiële crisis vaker aan als kans voor het doorvoeren van innovaties, terwijl NRW-gemeenten begrotingsstress als een tijdelijk probleem beschouwen en begrotingsdiscipline en financiële maatregelen verkiezen. We laten zien dat gemeentelijke bezuinigingsbesluiten erg gevarieerd zijn, terwijl op een meer oppervlakkig niveau vaak wordt gesteld dat het allemaal op elkaar lijkt. We benadrukken de impact van

het institutionele systeem op de waarschijnlijkheid van vernieuwend bezuinigen. De bevindingen laten zien dat de institutionele setting – vooral financiële autonomie en organisatiecultuur – vergaande innovatie stimuleert of belemmert.

### Innovatieve capaciteiten bouwen met praktische interventies

Om duidelijk te maken hoe gemeenten de institutionele capaciteiten van vernieuwend bezuinigen bouwen met *praktische interventies*, bestudeer ik tot slot de implementatie. Omdat deze vaak geleid wordt door ambtenaren, kijk ik naar de praktische handelingen van *gemeentesecretarissen, projectmanagers en programmamanagers*. Het is voor gemeenten met een vernieuwingsambitie cruciaal om voorbij te gaan aan retoriek en besluiten en ook daadwerkelijk dingen anders te gaan doen. Het is cruciaal dat zij ideeën transformeren tot nieuwe praktijken. Ik verwacht atypische acties en handelingen omdat het verkennen van onbekende oplossingen met een onzekere uitkomst botst met de behoefte aan duidelijke en zekere reacties op crises. In twee deelonderzoeken laat ik zien hoe innovatieve besluiten in de praktijk worden geïmplementeerd en hoe gemeentesecretarissen ruimte creëren voor innovatie in crisistijd.

In hoofdstuk 5 ga ik in op de factoren die de implementatie van bezuiniging-gedreven organisatieverandering beïnvloeden. Ik beschrijf de ogenschijnlijk succesvolle implementatie-praktijk in een grote Nederlandse gemeente en verbind de empirische gegevens aan de acht generieke ‘sleutels van succesvolle organisatieverandering’ (Fernandez & Rainey, 2006). Ik gebruik een diepgaande *single casestudy* om de omstandigheden, strategieën en motivaties vast te leggen die kenmerkend zijn voor deze specifieke casus. Ik bouw op de ervaringen van 65 personen die betrokken zijn bij de implementatie om een zogenaamde ‘thick description’ te maken. Aanvullende gegevens zoek ik in meer dan honderd officiële en interne documenten. Het onderzoek laat zien dat niet alle ‘sleutels’ zijn vervuld. Ik maak duidelijk dat in deze casus drie alternatieve acties cruciaal zijn voor de implementatie van bezuiniging-gedreven innovatie. In dit proefschrift noem ik deze acties ‘acts of implementation’. Ik trek de voorlopige conclusie dat ambtenaren die bezuiniging-gedreven innovatie implementeren, effectiever zijn als ze: (1) politieke inmenging accepteren en gebruiken (in plaats van politici op afstand houden, wat normaal is tijdens onzekere processen), (2) anticiperen op weerstand tegen verandering (in plaats van proberen om alle weerstand op voorhand weg te nemen) en (3) meerdere aspecten van succes benadrukken (in plaats van enkelzijdig te focussen op specifieke onderdelen, zoals financiën of efficiëntie). Ik laat zien dat de

implementatie van bezuiniging-gedreven innovatie niet zozeer gaat over het voldoen aan generieke succesvoorwaarden, maar over dynamische en flexibele acties die passen bij de specifieke context van bezuinigingen.

In hoofdstuk 6 achterhaal ik het juiste type ‘*slack*’ (ongebruikte resources) voor innovatie. Ik onderzoek hoe gemeentesecretarissen aankijken tegen ‘slack’ en hoe ze zorgen voor ‘slack’ terwijl ze te maken hebben met begrotingsstress. Ik gebruik een vergelijkende casestudy om contrasten, overeenkomsten en patronen van ‘het bouwen van ‘slack’ tijdens begrotingsstress’ te ontdekken. Ik gebruik de ervaringen van twaalf door de wol geverfde gemeentesecretarissen. De onderzoeksdata is kwalitatief en komt uit *elite-interviews* en een *focusgroep*. De belangrijkste bevinding van deze studie is dat innovatie in de publieke sector niet profiteert van ‘slack’ in het algemeen, maar van een specifieke vorm van ‘slack’. Ik laat zien dat nuttige ‘slack’ voor innovatie niet zozeer gaat om financiële ruimte in de begroting, of personele ruimte in de organisatie, maar om de ‘psychologische ruimte’ van medewerkers. Ik beargumenteer dat de prangende vragen van vervolgonderzoek niet alleen gericht moeten zijn op het identificeren van de ‘juiste hoeveelheid’ ‘slack’ (zoals nu het geval is), maar op het identificeren van het ‘juiste type’ slack. Politici en managers die vernieuwender met begrotingsstress willen omgaan, kunnen met deze informatie hun perceptie van ‘slack’ en de waarde ervan heroverwegen. In plaats van te werken vanuit puur kosteneffectiviteitsparadigma (‘slack’ is per definitie slecht), kunnen ze de kosten van ‘slack’ en de innovatieve mogelijkheden ervan in evenwicht houden. In dit hoofdstuk belicht ik de sociale en psychologische kanten van het managen van begrotingsstress. Ik concludeer dat het vergroten van het vermogen van gemeenten om op vernieuwende wijze om te gaan met (financiële) crises niet zozeer gaat om het vergroten van de voorspellende capaciteit of (financiële) buffers, maar om het vergroten van de mentale ruimte en het veranderen van de ‘mindset’ van medewerkers.

### Belangrijkste bevindingen

Met betrekking tot de *discursieve interventies* toont dit onderzoek aan dat sommige politici een nieuw verhaal maken dat ruimte biedt voor vernieuwend bezuinigen. De ‘flexibele framing’ van deze politici – lees: hun gebruik van meerdere bezuinigingsframes – zorgt ervoor dat de onderwerpen en toon van het debat veranderen. De toegenomen aandacht voor nieuwe concepten en andere oplossingsrichtingen draagt vervolgens bij aan de ontwikkeling van nieuwe ideeën. Ik pleit daarom voor een beweging van een statische focus op ‘frames’ naar een meer

dynamisch begrip van het ‘framing proces’. Deze studie toont aan dat retorische vernieuwing een belangrijke voorwaarde is voor de feitelijke ontwikkeling van innovatieve ideeën.

Met betrekking tot de *decisionele interventies* maak ik duidelijk dat gemeenten over het algemeen een voorkeur hebben voor conservatieve financiële maatregelen met een snel en zeker effect. Ik laat echter ook zien dat sommige gemeenten specifieke besluiten nemen die innovatie faciliteren en stimuleren. Ik laat zien dat de ontwikkeling van ‘vernieuwende bezuinigingsmaatregelen’ essentieel is om door te gaan met innovatie.

Met betrekking tot de *praktische interventies* toon ik aan dat de succesvolle implementatie vereist dat ambtenaren dynamische en flexibele acties ontwikkelen die passen bij de context van begrotingsstress. Daarnaast wijs ik op het belang van de *niet-financiële* aspecten van vernieuwend bezuinigen. Ik laat zien dat het creëren van ruimte voor duurzame innovatie niet gaat om het scheppen van financiële buffers of het vergroten van het personeelsbestand, maar om het versterken van de mentale speelruimte van medewerkers. Gemeenten die de kosten van ‘slack’ afwogen tegen de innovatieve mogelijkheden ervan, ontwikkelen meer innovatieve output dan gemeenten die een puur kosteneffectiviteitsparadigma hanteren.

De centrale onderzoeksvraag gaat over de interventies waarmee gemeenten institutionele capaciteiten (kunnen) bouwen om op een vernieuwende manier met begrotingsstress om te gaan. Ik bevestig dat sommige gemeenten zich inderdaad richten op *niet-financiële ideeën en concepten om met begrotingsstress* om te gaan. De meeste gemeenten echter, doen dat niet en richten zich vooral op maatregelen die passen binnen het financiële en prestatieparadigma. Deze studie beschrijft hoe niet-financiële maatregelen leiden tot veranderingen in werkprocessen, routines en culturen. Deze veranderingen zijn vaak erg praktisch, zoals het beleggen van de verantwoordelijkheid om met begrotingsstress om te gaan bij een bredere stuurgroep in plaats van alleen bij de wethouder financiën, of het ervoor zorgen dat bezuinigingsbesluiten worden voorbereid door een team van gemixte expertise in plaats van alleen financiële experts. Desalniettemin hebben zij een grote impact op de aard van de ontwikkelde ideeën alsmede op de *mentaliteit van medewerkers en de dynamiek in de organisatie*. Het onderzoek maakt duidelijk dat interventies niet altijd in elke praktijk worden gebruikt en dat een vaste set aan interventies niet bestaat.



Tot slot formuleer ik drie verschillende vaardigheden die belangrijk zijn om vernieuwend om te gaan met begrotingsstress. Geïnformeerd door de empirische bevindingen, stel ik dat de kans op vernieuwend bezuinigen toeneemt als gemeenten:

1. bewust dominante doctrines overstijgen en onbekende concepten gebruiken om een nieuw frame te creëren, als ze afwijken (*deviate*);
2. potentiële innovaties kunnen identificeren en deze kunnen vertalen in precieze bezuinigingsmaatregelen die zowel aansturen op innovatie en als de financiële impact verduidelijken, als ze ontcijferen (*decipher*); en
3. via de juiste ‘acts of implementation’ besluiten in de praktijk brengen, als ze leveren (*deliver*).

#### De bezuinigingsparadox

Ik presenteer ‘de bezuinigingsparadox’ als hoofdconclusie van dit onderzoek. De bezuinigingsparadox verwijst naar het feit dat het financieel reageren op financiële problemen deze problemen niet verlicht. Aanhoudende bezuinigingsacties leiden niet tot financiële slagkracht als institutionele patronen gehandhaafd worden in plaats van doorbroken. Gemeenten kunnen ontsnappen aan de bezuinigingsparadox door te kiezen voor alternatieve oplossingen met minder onbedoelde gevolgen. Het veelzijdige karakter van vernieuwend bezuinigen vereist dat lokale politici en ambtenaren ook aandacht besteden aan de niet-financiële aspecten van (omgaan met) begrotingsstress, zoals kennis, routines, regels, cultuur, gedrag en mentaliteit.

Dit onderzoek heeft verschillende academische en maatschappelijke implicaties. Ten eerste draagt deze studie in meerdere opzichten bij aan de *literatuur*, dat (1) begrotingsstress en vernieuwend bezuinigen niet beschouwd moeten worden als tijdelijke financiële problemen die technische en instrumentele oplossingen vereisen, (2) dat vernieuwend bezuinigen gaat zowel over ‘innovatie als een kostenbesparende activiteit’ als over ‘kostenbesparingen als innovatieve activiteit’ en (3) dat vernieuwend bezuinigen te belangrijk is om over te laten aan de financiële experts. In termen van *wetenschappelijk onderzoek*, wijs ik op (a) het belang van niet-financiële bezuinigingsmaatregelen om te ontsnappen aan begrotingsstress, (b) de noodzaak van ‘*psychological slack*’ ofwel mentale ruimte voor publieke innovatie en (c) de impact van discursieve, decisionele en praktische interventies op het verloop van innovatief gedrag. Dit onderzoek levert een belangrijke bijdrage aan het democratisch debat over bezuinigingen. De uitkomsten laten zien dat lange termijn succes ondenkbaar is zolang de financiële aspecten van begrotingsstress dominant blijven in het debat.

Alleen wanneer de samenleving en besluitvormers hun perspectief op bezuinigen en begrotingsstress verruimen, zal de (financiële) veerkracht van gemeenten blijvend versterken. Politici, belangengroepen, gemeentesecretarissen en andere gemeenteambtenaren kunnen de inzichten uit deze studie gebruiken om te leren hoe ze innovatie kunnen najagen tijdens een (financiële) crisis. En dan gaat het meer om *begrotingsstress* dan om *begrotingsstress*.







## Co-authorship chapter 3



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In overeenstemming met het Promovendireglement kunnen gepubliceerde artikelen opgenomen worden in het proefschrift. Indien dergelijke delen van het proefschrift in samenwerking zijn ontwikkeld, moeten deze delen vergezeld gaan van een verklaring van elk van de auteurs aandeel in het werk van de student.

### ARTIKEL EN PROEFSCHRIFT

Deze co-auteursverklaring heeft betrekking op het volgende artikel:  
*Overmans, J.F.A. & M. Noordegraaf (2014). Managing austerity: rhetorical and real responses to fiscal stress in local government*

Gepubliceerd in het volgende tijdschrift of andersoortige publicatie:  
*Public Money & Management*

Het artikel maakt deel uit van het proefschrift met de volgende titel:  
*The austerity paradox. How municipalities (can) innovatively cope with fiscal stress.*

Proefschrift ingediend ter verdediging van de graad door: J.F.A. Overmans


### OMVANG BIJDRAGE

J.F.A. Overmans heeft op de volgende schaal bijgedragen aan het bovenstaande artikel met de omvang:


- A. Heeft bijgedragen aan de samenwerking (1-33%)
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## Co-authorship chapter 4

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**ARTIKEL EN PROEFSCHRIFT**

Deze co-auteursverklaring heeft betrekking op het volgende artikel:  
*Overmans, J.F.A. & K.P. Timm-Arnold (2016). Managing Austerity: Comparing municipal austerity plans in the Netherlands and North Rhine-Westphalia*

Gepubliceerd in het volgende tijdschrift of andersoortige publicatie:  
*Public Management Review*

Het artikel maakt deel uit van het proefschrift met de volgende titel:  
*The austerity paradox. How municipalities (can) innovatively cope with fiscal stress.*

Proefschrift ingediend ter verdediging van de graad door: J.F.A. Overmans


**OMVANG BIJDRAGE**

J.F.A. Overmans heeft op de volgende schaal bijgedragen aan het bovenstaande artikel met de omvang:

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**J.F.A. (Tom) Overmans** (1979) holds a bachelor's degree (BA) in Communication and Information Sciences from Utrecht University (Faculty of Humanities), and a master's degree (MA) in Public Administration and Public Policy from Utrecht University (Faculty of Law, Economics and Governance).

During his studies he was a political assistant to the liberal party of Utrecht's city council. After graduating, Tom was selected for the Young Professional Program of the Ministry of Finance. As a participant to this program he worked as a junior financial analyst in Parliament (*Tweede Kamer der Staten-Generaal*, the House of Representatives) and in the Ministry of Infrastructure and Water Management. In 2007, he moved from the government to a privately-owned consultancy firm. Over the years Tom gained considerable expertise in various areas of public management, public finance, organizational change, and consulting.

In 2014, he started teaching at the Utrecht University School of Governance (USG), where he still works as an assistant professor. Tom is involved in the financial-economic courses of the department, most visibly as coordinator of the compulsory bachelor course Economics and Public Finance, and the elective Public Financial Management. He is involved in various academic skill programs on the master's level, such as management consulting and project management. In 2017, he was awarded the Teacher of the Year award, organized by Perikles, the department's student association. In 2018, Tom was nominated for the Teacher Talent award of Utrecht University, together with two other lecturers, from other faculties.

Tom enjoys working at the crossroads of practice and academia and at the cutting edge of practical/theoretical developments. As senior academic consultant of USGs consultancy branch, for instance, he participates in research projects commissioned by a range of public organizations. He is the secretary of the Dutch Association of Public Administration (*Vereniging voor Bestuurskunde*, the 'VB').

Between 2011 and 2018, Tom worked (part-time) on his dissertation about innovative austerity management in municipalities. He established a learning community of practitioners and academics around the issue (*Netwerk Vernieuwend Bezuinigen*) to gather data, and to share and discuss insights instantly so that practitioners could use them while dealing with fiscal stress.

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This book studies how municipalities (can) deal with fiscal stress. It applies an institutional perspective, arguing that municipalities can move beyond a fiscal focus and performance optimization, towards building institutional capacities to innovatively deal with fiscal crises. The book shows that many municipalities mainly opt for safe financial measures with quick results. It also shows, however, that some municipalities do invest in seeking new measures, and that they deal differently with the current crisis and create leeway to deal differently with future crises. They bend and stretch constraining rules, norms, and beliefs. More innovative responses are established when municipalities move beyond dominant doctrines (deviate), when they identify and translate potential innovations into concise decisions (decipher), and when they perform dynamic acts of implementation that fit the context of austerity (deliver). The book concludes with an emphasis on the 'austerity paradox': opting for financially driven austerity actions does not enable municipalities to deal with fiscal crises. Municipalities can bounce forward by opting for alternative solutions that pay attention to the non-financial aspects of dealing with financial crises, most specifically knowledge, routines, cultures and mentalities.

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