Local government capacity
Examining the determinants of government capacity through innovativeness

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**Introduction**

Since the 1980’s, there has been a tendency towards decentralization in most European countries (Cities and Governments 2008, Halásková and Halaskova 2014). Central governments increasingly transfer authority, tasks, spending responsibilities and competences to lower government levels (Nelissen 2002). This decentralization also took place in Flanders, where the Flemish Government aims at a government landscape consisting of strengthened municipalities with more autonomy and power (Homans 2014-2019).

These reforms initiated an important debate on the growing role of local governments and their respective levels of capacity. Local governments must to a growing extent be flexible, and be able to respond adequately to changing demands of both citizens and central governments. This means that the ability to innovate, which we call ‘innovative capacity’ (Gieske, van Buuren et al. 2016), becomes crucial for the overall capacity of local governments. In other words, the capacity of local governments depends on its ability to align the structure and operation of the organization with (growing) external expectations. The aim of this paper is to examine the potential of local governments to achieve this innovative capacity by identifying conditions and precedents of successfully implemented innovations, and by learning out of less successful initiatives.

**Conceptual framework**

**SARFIT**

In this paper, an organizational perspective is used. The idea that local government capacity depends on the ability to harmonize structure and external expectations is central to the Contingency Theory of Structural Adaption to Regain Fit (SARFIT) (Donaldson 1987, Donaldson 2001, Donaldson 2006). The starting point of this theory is that the effectiveness of a certain organization results from a fit between the characteristics of an organization, such as its structure, and the contingencies reflecting the situation of the organization, such as environmental demands. The contingencies can be both internal, such as task uncertainty, and external, such as environmental factors. However, they all have in common that they affect organizational characteristics, such as organizational structure (Donaldson 2001).

When an organization succeeds in realizing a fit, this leads to a better performance. The theory thus indicates that structural attributes influence the performance of an organization. This determination motivates the organization to adjust its characteristics in order to achieve this fit. In other words: organizations try to avoid a ‘misfit’ when contingency variables change, by adopting new organizational characteristics, such as an adjustment of its structure, that fit the new contingencies.
(Donaldson 2001). When contingency variables change while the organizational structure remains unchanged, a misfit occurs which has a negative impact on performance. When the level of performance becomes too low, the organization adopts a renewed structure that fits the changing contingencies. This process is called 'adaptive change'. Thus, to avoid a reduced performance, organizational structure becomes shaped by its contingencies through adaptive change (Donaldson 2001).

![Diagram: The Contingency Theory of Structural Adaptation to Regain Fit (SARFIT) (Donaldson 1987)]

**Figure 1: The Contingency Theory of Structural Adaptation to Regain Fit (SARFIT) (Donaldson 1987)**

An organization is thus forced to constantly renew itself, through sustainable innovations. The ability to do this largely determines the capacity of a local government because this ensures that there is a certain 'fit' between the structure of the organization on the one hand and the contingencies on the other. This way, successful innovations can be seen as an outcome designed to help the organization in achieving fit (Walker 2014). It should be clear that this approach implies a conceptualization of local government capacity whereby the extent to which a municipality can innovate in function of its contingencies is central.

It is important to mention that these 'structural adaptations' are often required by central governments. The legal framework and the centrally formulated objectives are then naturally regarded as 'external demands': they are external factors that set the course of local government. However, we are examining the 'adaptive change', and thus the implementation of this centrally delivered legislation. After all, this phase shows whether a certain municipality has the capacity to actually give shape to these external expectations in an adequate manner.
We can state that innovativeness and adaptive change are inextricably linked (Hansén and Wakonen 1997): innovations ensure that change is possible, and conversely, change creates room for innovative ideas. This interplay leads to structural renewal and a new fit between organizational structure and contingency variables, which in turn leads to local government capacity and higher performance. This means that this capacity is connected to the ability of a governmental organization to innovate (Damanpour and Schneider 2008, Walker, Berry et al. 2015). Gieske, van Buuren et al. (2016) state this as follows: “Due to political and societal demands, public sector organizations are in constant process of adapt to changing circumstances in order to remain effective, efficient and legitimate in dealing with societal problems and delivering public services.”

Andrews 2010, Harvey, Skelcher et al. (2010) state that the relationship between organizational structure and contingency variables, linked to performance, is of significant importance in public sector organizations, because these are less open to market mechanisms and have limited room for strategic choices.

The aim of this paper is to examine the potential to achieve local government capacity through investigating the innovative capacity of these organizations. In this respect, the question can be asked in which phase we see government capacity occur: as innovations in structures and processes, or as innovations in output and outcome. However, both cannot be seen separately from each other. We consider innovative capacity as the potential to adapt structures and processes to the (mainly external) contingencies, without losing sight of the output side. After all, we assume that an adequate fit between the structure of the organization increases the potential for achieving improved performance, and thus outcome. By examining the conditions and precedents of innovative capacity, we can observe which municipalities are eligible to achieve a fit between the organizational structure and contingencies, and consequently have the potential to develop or strengthen local government capacity. Our research question is:

‘What factors make it possible to develop and/or strengthen innovative capacity, as a necessary condition for local government capacity and how do these factors interact with each other?’

Innovative capacity

First of all, a thorough understanding of innovations is required. It is remarkable that most studies concerning innovations don’t provide a clear definition of the concept itself (Membretti 2007, Meeuwisse 2008, De Vries, Bekkers et al. 2016). In the various definitions used in the last decades of innovation we see a shift from an emphasis on ‘the objectively new’ (Schumpeter 1942, Aiken and Hage 1971) to ‘something perceived as new’ (Borins 2014, Walker 2014). Besides, through the growing
awareness that organizations don’t always fully adopt a certain innovation, an adequate use and implementation has become fundamental to the definition (Boyne, Gould-Williams et al. 2005, Walker 2014). Because the concept is quite broad and definitions usually remain generic, scholars often specify certain types or dimensions of innovation (Moore and Hartley 2008, De Vries, Bekkers et al. 2016). A recent literature review (De Vries, Bekkers et al. 2016) defines 4 types:

- **Process innovation**: improvement of quality of internal and external processes (Walker 2014)
  - Administrative process innovation: creation of new organizational forms, the introduction of new management methods and techniques and new working methods (Meeus and Edquist 2006)
  - Technological process innovation: Creation or use of new technologies, introduced on an organization to render services to users and citizens (Damanpour and Gopalakrishnan 1999, Edquist 2001)

- **Product or service innovation**: creation of new public services or products (Damanpour and Schneider 2008)

- **Governance innovation**: development of new forms and processes to address specific societal problems (Moore and Hartley 2008, Bekkers, Edelenbos et al. 2011)

- **Conceptual innovation**: introduction of new concepts, frames of reference or new paradigms that help to reframe the nature of specific problems as well as their possible solutions (Bekkers, Edelenbos et al. 2011)

Innovative capacity is not limited to the ability of implementing a single type of innovation. Therefore, to make statements about innovative capacity in general and consequently local government capacity, it is useful to study different types of innovations. An important question, however, is whether innovative capacity depends on the local governments themselves or on external factors. The answer is probably somewhere in the middle. For example, a local government can try to put itself on the market as an attractive employer in order to attract sufficient qualified staff, but still, for a number of issues such as remuneration it depends on the legal framework of the central governments. Innovative capacity is therefore in no way purely dependent on the local government itself, but requires a number of external factors that it doesn’t (completely) have in its hands. It is therefore important to have sufficient attention for the broader institutional context. We have chosen to study closely two different Flemish innovations initiated from the Flemish government.

First, we examine organizational control-systems as an example of a process innovation. Organizational control as part of performance management refers to the complete set of instruments by which an organization tries to strengthen its control over its operation. This has played a crucial role
in local government reforms: ‘The availability of performance information is a necessary – but not sufficient – condition for the success of many reform initiatives’ (Van Dooren, Bouckaert et al. 2015).

At Flemish level, a guideline ‘organizational control’ for local governments was developed. This is a comprehensive guide with organizational management objectives, risks and control measures that can provide support to build a system of internal control / management control (Vlaamse_overheid 2014). The objective of organizational control concerns the mapping of processes and procedures to make both internal operations and service delivery more efficient and effective. This closely matches the main objective of process innovations, namely to improve the quality of internal and external processes through examining how a service is rendered (Walker 2014).

Secondly, we selected the integration between the Public Centre for Social Welfare (hereafter called PCSW) and the municipalities as an example of a governance innovation. The PCSW is a public institution that exists in each of the 589 municipalities of Belgium providing social services such as financial help, housing, medical help and legal help. The three Belgian regions (Flanders, Brussels and Wallonia) each are responsible for most local government matters. The Flemish Government is planning to integrate the PCSW’s into their respective municipalities by 1 January 2019 (Homans 2016). With this envisaged integration, the Flemish government aims at achieving four objectives: strengthening the city council by empowering its social policy, realizing efficiency gains through the merging of the administrations of both organizations, the realization of a maximum integrated local social policy and implementing a greater customer focus and low-thresholdness (Homans 2016, Broucker, Van Haelter et al. 2017). It is important to mention that this integration is compulsory by decree for all Flemish municipalities, and that we measure the progress of the implementation here, taking into account the fact that different municipalities and PCSWs have a long tradition of cooperation in varying intensities. The integration of municipalities and PCSW’s can be seen in a broader, international context of local government innovations. Many local governments try to increase their efficiency and effectiveness by means of upscaling, for example through inter-municipal cooperation and amalgamations, and strive for a more integrated policy.

We assume that successful implementation and use of these innovations are implications for strong innovative capacity, and that innovative capacity is a conditio sine qua non for local government capacity. Note that we do not want to claim that innovative capacity automatically leads to government capacity, but that a municipality needs sufficient innovative capacity to potentially achieve appropriate or strengthened government capacity. So, if we want to gain insight into the necessary conditions to potentially develop sufficient local government capacity, we must distinguish necessary antecedents for the success of the two aforementioned innovations. In other words: the
factors that prove necessary for the realization of these innovations are a prerequisite for achieving innovative capacity, and are needed for potentially developing local government capacity.

The existing literature distinguishes a multitude of possible antecedents for a successful implementation and use of innovations. Walker (2014) makes a distinction between internal and external antecedents. Within the set of internal antecedents, the size of the organization (number of employees) emerges as an important factor stating that innovations are associated with larger organizations (Camisón-Zornoza, Lapiedra-Alcamí et al. 2004, Damanpour and Schneider 2008, Fernandez and Wise 2010, Jun and Weare 2010, Hansen 2011). For the opposing argument in which predominantly supporters of the Public Choice Theory indicate that large organizations are monopolistic and inefficient (Niskanen 1971), we find much less evidence in the literature. Besides the literature supports the role of administrative capacity as an antecedent to motivation: the more qualified managers are operating within the organization, the greater the chance of success of a particular innovation (Fernandez and Wise 2010, Jun and Weare 2010, Bhatti, Olsen et al. 2011). Within the set of external antecedents, needs (Meyer and Goes 1988, Light 1998), wealth (Moon and DeLeon 2001) and urbanization (Aiken and Alford 1970) were examined. None of these turned out to be important antecedents for innovative capacity.

De Vries, Bekkers et al. (2016) distinguished 3 types of antecedents. A first relates to the environmental level, with antecedents linked to a particular context in which the organization operates. We find that environmental pressures such as political aspects are mentioned the most often (Borins 2000, Borins 2001). A second type are the ‘organizational antecedents’, defined ‘as those aspects that reflect the structural and cultural features of an organization’ (De Vries, Bekkers et al. 2016). The availability of (financial) resources is the most mentioned one. This is surprising, because the support score in Walker’s literature review (2014) didn’t indicate any association between innovative capacity and resources. However, most sources endorse the vision of De Vries, Bekkers et al. (2016). For example, Fernandez and Rainey (2006) state that ‘resource scarcity can hinder organizational changes’, Daley and Garand (2005) call the capacity of a state’s economy ‘the ultimate determinant of the state’s propensity to innovate’ and Boyne (2003) found that the ability of financial resources is ‘one of the important factors for improving public services and hence, bringing about change’. Besides this, leadership is also seen as an important organizational antecedent for innovative capacity. Jenkins-Smith and Sabatier (1994) point out the importance of ‘Advocacy coalitions’, defined as ‘coordinated groups of governmental officials, activists, journalists, researchers, and policy analysts’, as a crucial determinant for innovative policy adoptions. This leads us to the assumption that non only individual

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1 One could argue that political aspects cannot be regarded as environmental factors as they are inherently linked to the municipal operation.
leadership is an important determinant, but also the interplay between (the leadership styles of) the official and the political level. A third type relates to the individual level. The most important ‘individual antecedents’ are job-related skills and competencies (Bartlett and Dibben 2002) and the creativity of individual employees breaking through a conservative, risk-averse organizational culture (Borins 2000). McLendon, Heller et al. (2005) also point out the importance of professionalized legislatures.

![Conceptual framework](image)

**Figure 2: Conceptual framework**

Although the empirical evidence base on the determinants influencing innovative capacity is longstanding and kept growing in the public sector over recent years (Walker 2014), the literature reviews of both Walker (2014) and De Vries, Bekkers et al. (2016) point out that most of the studies have been testing the independent effects of a certain determinant on innovative capacity. The relationships between the various determinants, and the joint effects of these antecedents, have barely been studied. By combining the possible determinants with each other, another critique on previous research can be countered. Fernandez and Rainey (2006) state that ‘some of the theories downplay the significance of human agency as a source of change’ (DiMaggio and Powell 1983, Hannan and Freeman 1984, Scott and Davis 2015). Conversely, other theories view managers’ purposeful action as driving change (Lawrence and Lorsch 1967, Salancik and Pfeffer 1978). In this paper, we will combine actor-driven (such as leadership) and institutional (such as size) factors.
Methodology

Taking into account the complexity of this research question and because we want to get sufficient depth in the various factors, we start from a qualitative approach using in depth interviews and focus groups. This allows us to have a better understanding of the broader context wherein local governments operate, and the local context wherein both political actors and civil servants make decisions.

Because we want to examine relationships between the different variables instead of the impact of independent variables, Crisp set Qualitative Comparative Analysis (csQCA) (Rihoux and Ragin 2004, Rihoux and Ragin 2008) is used to analyze our data. We prefer Crisp set QCA above Fuzzy set QCA because in this method we reduce the data producing more consistent and unambiguous results (Skaaning 2011). The software used was fsQCA 3.0 (Ragin 2016).

csQCA relies on Boolean algebra to detect various combinations of conditions related to a certain outcome of interest, drawing upon fundamental case-study research components (Ragin 1987). In other words, QCA treats social scientific categories as sets and views cases in terms of their multiple membership. This cross-case analytic method makes it possible to examine the cases in terms of their membership in sets. ‘Membership combinations’ are compared with each other in order to identify patterns of similarity and difference. This provides the basis for the construction of causal arguments (Kogut and Ragin 2006).

In csQCA, all variables are coded 0 (fully out) or 1 (fully in). After this, a so called ‘truth table’ is constructed, containing all of the possible combinations of conditions that might relate to a certain outcome. Each row in this table shows the number of actual cases that match a possible combination of conditions. After this, an analytical process called ‘minimization’ shows the most parsimonious explanation of the outcome.

Meur, Rihoux et al. (2004) (see also: Rihoux, Rezsöhazy et al., 2011) suggest that QCA could offer practical added value in the field of public administration. First of all, these techniques are particularly interesting for small or medium-N data sets and with cross-case comparisons. This occurs typically within cross-countries, within country comparisons (e.g. between states or regions) and within-regions (e.g. between municipalities). Second, this method is effective to engage in a systematic, quasi-experimental design (e.g. to examine under which combination of conditions a certain policy is effective). Third, the QCA-methods are extremely transparent. This way it is easy for policy analysts and scholars to modify the data or include other variables for further testing. To this, Rihoux, Rezsöhazy et al. (2011) add another point: ‘The set-relationship nature of QCA is also a core asset for policy-oriented analysis. By contrast with most quantitative techniques that produce results in terms of mean
or general tendencies, QCA produces rather ‘deterministic’ results – in the form of: “this given combination of conditions leads to the outcome (say: a policy success) in such and such cases; by contrast, this other given combination of conditions does not lead to the outcome (say: a policy failure) in such and such cases”. Such results are very much in line with the goal-orientedness of policy analysis.’

The first step of a QCA analysis is to determine which cases to include. We selected 11 Flemish municipalities with sufficient variation, based on the following criteria:

- Geographical spread
- Variation in scale: we selected municipalities with a population of around 10,000 inhabitants (4/11) and with a population of around 40,000 inhabitants (7/11). We didn’t include big cities because these operate in a specific context and legal framework.
- Variation in the Belfius clustering² to ensure that there is sufficient variation in socio-economic characteristics of the selected municipalities. For example, large cities receive a larger subsidy because of their center function.
- Variation in governance practices: an expert on local government matters assured that our longlist was sufficiently varied and a good cross-section of administrative practices in Flanders.

Before moving to our 11 selected cases, a pilot-case was researched in order to test our conceptual and analytical framework, and to see whether the questions were clear and produced the necessary results. In the selected cases, we conducted semi-structured in depth interviews and focus groups. Our respondents were local politicians (mayors, aldermen, PCSW-presidents, opposition members ...) and civil servants (management, heads of service and employees). A full list of the respondents is attached in the appendix. All interviews were recorded. Afterwards, they were transcribed and coded with Nvivo 11-software. The coding scheme is attached in the appendix.

The basis of QCA-analysis consists of the coded cases. Therefore, a clear and theoretically-informed operationalization of the different variables is required (Berg-Schlosser, De Meur et al. 2009). We combined qualitative (interview-data) and quantitative (document analysis) data, because both can be operationalized in the conditions and the outcome (Berg-Schlosser, De Meur et al. 2009).

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² ‘The Belfius clusters’ is a typology of the Flemish municipalities, based on socio-economic, geographic and demographic criteria. A table of the clusters is attached in appendix 3.
Conditions (independent variables)

As stated earlier, the literature distinguishes 6 independent determinants for innovative capacity: size, resources, administrative capacity, environmental pressure, leadership and employee characteristics.

In the following summary table these factors are systematically listed, always indicating how the relevant factor was operationalized in our research. Afterwards, every factor is discussed in more detail.

<table>
<thead>
<tr>
<th></th>
<th>Walker</th>
<th>De Vries</th>
<th>Operationalized as:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Internal</td>
<td>Did not mention</td>
<td>Environmental size: Scale: municipalities with a population from around 40 000 will be assigned the value 1, while municipalities with a population from about 10 000 will receive the value 0.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Organizational size: Absence of one-man service: If there are no one-man services present within the municipal organization, the case will receive the value 1, if there is at least 1 one-man service present, the case will get the value 0.</td>
</tr>
<tr>
<td>Resources</td>
<td>Internal</td>
<td>Organizational level</td>
<td>Financial resources: a favorable financial situation gets the value 1, an unfavorable gets the value 0.</td>
</tr>
<tr>
<td>Administrative capacity</td>
<td>Internal</td>
<td>Did not mention</td>
<td>Not included in our research</td>
</tr>
<tr>
<td>Environmental pressures (political demands)</td>
<td>Did not mention</td>
<td>Environmental level</td>
<td>Political level and leadership are taken together as ‘Relationship between civil servants and political level’: a positive, constructive perceived relationship between the two levels gets the value 1, while a negative, destructive perceived relationship gets the value 0.</td>
</tr>
<tr>
<td>Leadership</td>
<td>Did not mention</td>
<td>Organizational level</td>
<td></td>
</tr>
<tr>
<td>Individual characteristics (employee autonomy, knowledge and skills)</td>
<td>Did not mention</td>
<td>Individual level</td>
<td>Sufficient skilled and qualified employees: when sufficient skilled and qualified employees are present within the organization, the case is given the value 1, when this isn’t the case, it gets the value 0.</td>
</tr>
</tbody>
</table>

Table 1: Summary of conditions

- Scale: The average municipality in Flanders has 21 000 inhabitants. In this paper, we chose to examine municipalities which are significantly bigger than average (40 000 inhabitants) and municipalities that are significantly smaller (10 000 inhabitants). These numbers were chosen because these are especially relevant within a Flemish context, being aware that there is a suspicion that small municipalities have more problems with
the increasing decentralization. Municipalities with a population from around 40,000 will be assigned the value 1, while municipalities with a population from about 10,000 will receive the value 0.

- Absence of one-man service: One-man services are services within the organization where one man or woman is responsible for both the strategic and operational components of the service, making the service (and consequently the organization as a whole) vulnerable. We chose this as an operationalization of ‘organizational size: number of employees’, because several experts and practitioners in exploratory discussions prior to this research indicated that the presence of one-man services makes the organization particularly vulnerable. If there are no one-man services present within the municipal organization, the case will receive the value 1, if there is at least 1 one-man service present, the case will get the value 0.

- Financial resources: To assess the presence of financial resources, account is taken of the debt ratio relative to the average within the Belfius cluster, the tax revenues, the share of the auto-financing margin\(^3\) in the total operating revenue, the evolution of the six-year auto-financing margin, the budgetary flexibility\(^4\), the investment expenditure per capita and the perception of the respondents with regard to the financial situation of the municipality. A favorable financial situation gets the value 1, an unfavorable gets the value 0.

<table>
<thead>
<tr>
<th></th>
<th>0 points</th>
<th>1 point</th>
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<tbody>
<tr>
<td>Debt ratio</td>
<td>Higher than average within Belfius cluster</td>
<td>Lower than average withing Belfius cluster</td>
</tr>
<tr>
<td>Tax revenues</td>
<td>Lower than average within Belfius cluster</td>
<td>Higher than average within Belfius cluster</td>
</tr>
<tr>
<td>Autofinancing margin</td>
<td>Unfavorable</td>
<td>Favorable</td>
</tr>
<tr>
<td>Evolution of the six-year autofinancing margin</td>
<td>Negative evolution</td>
<td>Positive evolution</td>
</tr>
<tr>
<td>Budgetary flexibility</td>
<td>High share of fixed expenses in operating expenses</td>
<td>Low share of fixed expenses in operating expenses</td>
</tr>
<tr>
<td>Investment expenditure per capita</td>
<td>Lower than average within Belfius cluster</td>
<td>Higher than average withing Belfius cluster</td>
</tr>
<tr>
<td>Perception of the respondents with regard to the financial situation</td>
<td>Negative perception</td>
<td>Positive perception</td>
</tr>
</tbody>
</table>

Table 2: operationalization ‘financial resources’

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\(^3\) The autofinancing margin is the difference between, on the one hand, the part of the revenue and expenditure from the exploitation that can be used for the liquidation of the net periodic loan expenditure and, on the other hand, the net periodic loan expenditure.

\(^4\) Share of fixed expenses in operating expenses
A favorable financial situation (municipality has a score of at least 4 points) gets the value 1, an unfavorable (municipality has a score lower than 4) gets the value 0.

- Relationship between civil servants and political level: The relationship between the management team and the college of mayor and aldermen is evaluated on the basis of the perceptions of the different respondents. A positive, constructive perceived relationship between the two levels gets the value 1, while a negative, destructive perceived relationship gets the value 0.

- Sufficient skilled and qualified employees: this variable is assessed on the basis of the following indicators: the number of FTE’s at A- and B-level\(^5\), the training provision within the organization, the possibility of internal mobility and the perception of the respondents with regard to the workforce and the recruitment policy.

<table>
<thead>
<tr>
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<th>0 points</th>
<th>1 point</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of FTE’s at A- and B-level</td>
<td>Lower than average within Belfius cluster</td>
<td>Higher than average within Belfius cluster</td>
</tr>
<tr>
<td>Training provision within the</td>
<td>Lower than average within Belfius cluster</td>
<td>Higher than average within Belfius cluster</td>
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<tr>
<td>organization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perceptions on the possibility of</td>
<td>No or limited possibilities</td>
<td>Many possibilities</td>
</tr>
<tr>
<td>internal mobility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perceptions on the recruitment</td>
<td>Few opportunities to recruit qualified employees</td>
<td>Sufficient opportunities to recruit qualified</td>
</tr>
<tr>
<td>policy</td>
<td></td>
<td>employees</td>
</tr>
</tbody>
</table>

\(5\) In Flanders, all government employees have a degree. A-level corresponds to a master’s degree, B-level with a bachelor’s degree, C-level with secondary education and at D-level no diploma requirements have been granted.

Table 3: Operationalization ‘sufficient skilled and qualified employees’

When sufficient skilled and qualified employees are present within the organization (municipality has a score of at least 3 points), the case is given the value 1, when this isn’t the case (municipality has a score lower than 4), it gets the value 0.
Table 4: Operationalization conditions

Outcome 1: integration municipality – PCSW (dependent variable)

Taking into account the current legal framework and the objectives of the policy, the 11 cases were scored on the basis of their progress in the context of the integration of municipal and PCSW. In doing so, 4 factors were taken into account that were graded each at 2 points:

- Unified management:
  - 0: No common management team, separate secretary and financial manager
  - 1: Common management team, separate secretary and / or financial manager
  - 1: No common management team, common secretary and / or financial manager
  - 2: Common management team, common secretary and / or financial manager

- Unified IT service
  - 0: No integration
  - 1: Only physical integration OR integrated processes and procedures
  - 2: Physical integration AND integrated processes and procedures

- Unified personnel administration / HRM
  - 0: No integration
  - 1: Only physical integration OR integrated processes and procedures
  - 2: Physical integration AND integrated processes and procedures

- Speed of evolution towards a unified organization

6 This was reviewed blind by two researchers in order to limit subjectivity.
When we organize the cases according to total points, we come to the following order:

2: Case 9
3: Case 2
4: Case 6, Case 8
5: Case 3, Case 4, Case 5, Case 7
6: Case 10
7: Case 1, Case 11

The reason why we have drawn the critical boundary between 4 and 5 points is twofold. On the one hand, the median runs through the score 5. On the other hand, each case was examined separately, and we established that there is a striking difference in the integration of the municipality - PCSW between cases 6 and 8 on the one hand, and cases 3, 4, 5 and 7 on the other side.

**Outcome 2: organizational control (dependent variable)**

Based on the Flemish guideline organizational control, we distinguish 4 factors contributing to organizational control:

- Presence of risk management and proactive policy
  - 0: (Almost) completely absent
  - 1: Implicitly present
- Presence of measurement and monitoring systems
  - 0: (Almost) completely absent
  - 1: Present, but does not result in evidence-based policy
  - 2: Present and results in evidence-based policy

- Perception on the Flemish guideline organizational control
  - 0: Municipality doesn’t use the guideline
  - 1: Rather negative perception
  - 2: Rather positive perception

- Use of an organizational control system
  - 0: No use of an organizational control system
  - 1: Ad hoc use of an organizational control system
  - 2: Consequent use of an integrated organizational control system

<table>
<thead>
<tr>
<th>Case</th>
<th>2</th>
<th>1</th>
<th>2</th>
<th>1</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Case 2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Case 3</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Case 4</td>
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<td>1</td>
<td>2</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Case 5</td>
<td>1</td>
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<td>2</td>
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Table 6: Operationalization ‘outcome 2’

When we organize the cases according to total points, we come to the following order with, again, a critical boundary between 4 points and 5 points:

2: Case 9
3: Case 4, Case 6, Case 8
4: Case 3, Case 10
5: Case 2, Case 11
6: Case 1, Case 2, Case 5, Case 7, Case 11
7: Case 1, Case 11
If the organization has an integrated, comprehensive and properly functioning organizational control, the case will be assessed with a value of 1. If the case does not use an integrated system of organizational control, the case will receive the value 0.

**Results**

QCA brings out the following multivariate explanations for the dependent variable ‘integration municipality – PCSW’:

\[
\text{~financial resources} \times \text{political-official leadership} \times \text{absence of one-man services} \times \text{scale} \times \text{sufficient skilled employees}
\]

AND

\[
\text{financial resources} \times \text{political-official leadership} \times \text{absence of one-man services} \times \text{scale} \times \text{sufficient skilled employees}
\]

This solution formula can be minimized by eliminating unnecessary variables. \(f \times P \times A \times S \times E\) and \(F \times P \times a \times s \times E\) show that A (absence of one-man services) and S (scale) are mutually interchangeable. The new formula is the following:

\[
\text{financial resources OR scale AND political-official leadership AND sufficient skilled employees}
\]

This formula can’t be minimized any further. Our results thus show that when the scale of the municipality is large, the political-official relations are constructive and there is sufficient qualified staff present, the financial situation does not matter. When the scale is small, the financial situation must be favorable, the political-administrative relationship must be constructive and qualified personnel must be present. We can also choose to let our results start from the financial situation of the municipality. When the financial situation is favorable, the political relations are constructive and there is sufficient qualified staff present, the scale does not matter. On the other hand, when the financial situation is unfavorable, the scale must be large, the political-administrative relationship must be constructive and qualified personnel must be present.

QCA brings out the following multivariate explanations for the dependent variable ‘organizational control’. It is striking that the outcome is the same for both innovations:
\[
\neg \text{financial resources} \land \text{political-official leadership} \land \neg \text{absence of one-man services} \land \text{scale} \land \neg \text{sufficient skilled employees} \\
\land \\
\text{financial resources} \land \text{political-official leadership} \land \neg \text{absence of one-man services} \land \neg \text{scale} \land \neg \text{sufficient skilled employees}
\]

After minimization:

\[
\text{financial resources} \lor \text{scale} \land \text{political-official leadership} \land \text{sufficient skilled employees}
\]

**Conclusions**

Our research question was: what factors make it possible to develop and/or strengthen innovative capacity, as a necessary condition for local government capacity and how do these factors interact with each other? Based on the existing literature, we distinguished six independent factors which make it possible to develop and/or strengthen innovative capacity: financial resources, political-official leadership, the absence of one-man services, scale and sufficient skilled and qualified employees. Although scale and the absence of one-man services were mutually interchangeable, all the factors mentioned played a decisive role in creating an environment in which the two innovations studied – the integration of municipality and PCSW and organizational control - became possible.

The aim of this paper was to see to what extent these factors relate to each other. To answer this complex question adequately, a crisp set QCA analysis was performed. The results show that a constructive perceived relationship between the management team (civil servants) and local politicians at the executive level and the presence of sufficient skilled and qualified employees in the organization are necessary conditions for innovative capacity. However, it is not sufficient to meet these conditions only: these must be supplemented with either a large scale or with sufficient financial resources. It is also striking that both innovations, which correspond to a different type of innovation, provide an equal combination of conditions. This reinforces the argument that our results actually have an impact on innovative capacity, and can be seen as a first but important step towards generalizability.
5 of the cases studied meet these requirements (Case 1, case 3, case 5, case 7 and case 10). When a municipality does so, it has the potential to develop innovative capacity: an important condition for achieving a fit between organizational structure on the one hand and contingency variables on the other. As stated before, this (re)gained fit may lead to local government capacity and better performance. We do not therefore state that an organization that meets these conditions automatically has sufficient capacity. We do emphasize, however, that these conditions are a prerequisite for developing capacity. They therefore have a direct influence on the potential to develop capacity, and not on the capacity itself.

Earlier we already mentioned that it is important to take into account the broader institutional context. An important question was whether innovative capacity depends on the local governments themselves or on external factors. It is remarkable in this respect that a mandatory innovation such as the integration municipality – PCSW on the one hand, and a non-compulsory innovation such as organizational control on the other hand, produce the same results. Although the innovations were initiated or mandatory from the central government, the local context remains decisive for its success or failure.
A common critic on the SARFIT-model and, by extension, structural contingency theory, is that it’s rather static (Galunic and Eisenhardt 1994): it studies a snapshot of a certain situation in a certain timeframe, dealing with a particular fit leading to higher performance. Besides, critics might argue that organization cannot get into fit with the contingency variables, because contingencies are constantly changing themselves, making it impossible to gain fit through organizational change. In a refinement of his conceptual scheme Donaldson introduces the concept of ‘quasi-fit’: ‘The organization may attain not full fit, but quasi-fit, that is, a structure that only partially fits the contingencies. Yet this may increase performance sufficient to produce some expansion in the contingencies.’ (Donaldson 2006)

![Figure 4: Lines of quasi-fit showing growth and decline-paths (Donaldson 2006)](image)

This is applicable to our research. While a ‘traditional’ crisp set is dichotomous (a case is either in (1) or out (0) a set (e.g. the organization has (1) or hasn’t (0) a favorable financial situation), fuzzy sets make it possible to include any value between 0 and 1, both in conditions and outcome. This has important implications: the use of fuzzy sets allow the researchers to differentiate more (e.g. the organization has a financial situation of 0.84 in comparison to its Belfiuscluster).

The main focus of this paper is on ‘internal determinants’, defined as ‘the factors leading a jurisdiction to innovate are political, economic, or social characteristics internal to the state. In these models, states are not conceived as being influenced by the actions of other states.’ (Berry and Berry 1990). It might be interesting to include the diffusion model in this research, in which innovations are seen as emulations of innovations in other (surrounding) municipalities (Walker 1969).
Thirdly, the fact that only two innovations are being investigated can be seen as a shortcoming of this paper. Gray (1973) stated that ‘states can be highly innovative in one program area but less innovative in others’. This might be an incentive to expand this research and involve other (types of) innovations.

Ultimately, research in a context other than the Flemish can lead to different results. As mentioned earlier, the institutional and legal framework largely determines the capacity of local authorities. It would therefore be interesting to know whether a similar research design produces the same results within a (strongly) different context.
Bibliography


## Appendix 1: list of respondents

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<th>City councilor</th>
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<th>Financial manager</th>
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### Appendix 3: Belfius clusters

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<td>Residential municipalities in rural areas</td>
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<td>V3</td>
<td>Very rural municipalities with strong aging</td>
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<tr>
<td>V4</td>
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<td>V5</td>
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<td>V6</td>
<td>Few urbanized municipalities with demographic decline</td>
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<td>V7</td>
<td>Highly urbanized municipalities with low incomes</td>
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<td>V9</td>
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