MANAGING FOR INNOVATION IN LOCAL GOVERNMENT

Three Core Strategic Factors
Attempting to replicate an innovation in your finance system because it ostensibly works elsewhere might be less important than creating an environment within your management system that consistently encourages and reinforces innovative thinking. Based on a growing body of empirical research and theory, three strategic factors appear to be crucial for enhancing the innovation management capacity of local government: leadership credibility, team management, and a well-functioning governing board. Evidence indicates that local governments that practice and emphasize these factors within their administrative systems experience a significant frequency of innovations that are perceived as highly effective (“innovation” is the introduction of something new or different with the intent of maintaining or increasing system effectiveness).

LEADERSHIP CREDIBILITY

The subject of leadership has received considerable attention within the public sector in recent years. One theory that appears to possess ample research support and clarity is the leadership credibility model. This model, originally developed by James Kouzes and Barry Posner in their book, *The Leadership Challenge*, stresses that leadership skills and behaviors can be learned, practiced, and used to improve organizational performance. Leaders can transform their organizations if they achieve a high level of credibility with their followers. How is this done? Leaders establish a vision of where they wish to go and then communicate that vision to followers in a way that uplifts and motivates, causing followers to accept and embrace the vision as their own. Leaders continuously strive to increase trust between themselves and their followers by making themselves vulnerable to risks and by delegating power to followers who are responsible for specific work objectives. Leaders also practice what they preach and model the way for others — in short, they take ownership of their behavior and live by the same rules and values they expect of others. Finally, credible leaders openly recognize the high performance of others and celebrate their accomplishments.

Leaders who master these skills and behaviors become leaders of integrity, honesty, trustworthiness, and believability. Followers believe in such leaders and accept their visions for change and innovation. This is crucial for innovation to really work and become accepted by the rank and file of a local government organization. Fundamentally, the senior managers (e.g., city managers, city administrators, and department heads) need to possess high leadership credibility if they want others to openly embrace change and innovation. Why, for example, should employees accept some new innovation, especially if it might involve more work and risk for them, when the finance director has low leadership credibility?

The leadership credibility characteristics of senior managers can be measured and assessed through survey instruments, and managers can learn where they might have specific leadership deficiencies that lower their overall credibility. Managers can also learn how to improve their credibility through training. Increasing leadership credibility is a win-win situation for the organization and its leaders. Innovations recommended by senior managers actually become accepted and practiced by followers in a meaningful way, and thus flow down the hierarchy and become part of the organization’s culture and operations. And managers receive positive reinforcement by knowing that their attempt to bring change to the system has been effective.

TEAM MANAGEMENT

Even before *In Search of Excellence* became a national best seller in the 1980s, the idea that organizations using a team approach to management were often more productive than those structured along strict bureaucratic lines was an accepted principle in organization development. Highly respected organization theorists have made a strong case for the team model, and more recent work further reinforces these earlier arguments and findings. But what is team management, and how does it improve innovation?

To begin, one must realize that most local governments are structured bureaucratically. Authority is hierarchical,
with those at the top having the most power and those at the bottom having the least, and work is divided into specialized functional units. While bureaucratic design has many benefits and positive attributes (e.g., efficiency, rational decision making, and work specialization), it also has many problems and dysfunctions. Vertical and horizontal communications within bureaucratic systems are often convoluted and slow, and specialized units often compete for resources and recognition. Employees performing repetitive work can become bored and unmotivated, and they often find upward promotion opportunities limited. Generally, lower ranking employees want certainty and stability in their jobs and tend to resist change. When change is needed, senior managers have a hard time pushing change down through the hierarchy in a way that is accepted by these workers. And when change is implemented by rank-and-file employees, they tend to re-interpret the innovation in a way that conforms to existing habits, techniques, and practices. Consequently, bureaucratic organizations tend to be unfriendly toward innovation.

The team management approach provides a solution to these anti-innovation bureaucratic tendencies. A team can be defined as a carefully designed work group whose members must rely on intensive collaboration if the work group is to experience success in achieving its specified objective. While not all work in local government lends itself to a team management approach, most tasks are achieved by teams rather than by individual employees doing their own thing. Teams work because a collection of employees working together on services, innovations, problems, and puzzles can use their combined brainpower in a context that generates better and more varied solutions than most individuals acting alone. Well-designed work teams tend to possess the following qualities: open and frequent communications, complementary expertise, clear sense of purpose and goals, trust and respect among members, a clear sense of roles for members, a lack of hierarchy and positional authority (everyone is more or less equal), a willingness to think outside the box, a belief in accomplishment and doing better than average, and a willingness to disagree with other team members.

When local governments use team management, especially at the senior management level, many of the problems and pitfalls associated with innovations can be thought through and resolved before they turn into serious impediments to implementation. Moreover, when an innovation is designed by a team, the members of the team assume ownership of the innovation and have a higher stake in making sure it is effective. The team will more likely make adjustments and corrections to an innovation if it is experiencing problems without feeling threatened by such occasions as a mark of failure. In fact, mistakes become learning moments that enable the organization to grow and adjust in how it carries out its mission.

As with leadership credibility, the level of team management within a local government can be measured and assessed through a variety of instruments. We can assess where management may be deficient in using a team approach and make specific recommendations on how to improve its team management. In fact, there is a broad literature and practice in organization development specifically focused on team building that can be used to improve team operations in just about any local government situation. Hence, if we want more frequent and effective innovations, we need to transform our bureaucratic-dominant structures into more flexible and adaptive team designs.

**Governing Board Functioning**

The third and final factor in the managing-for-innovation troika involves the municipal governing board (or city council). While governing boards do not initiate many technical innovations, they play an important role regarding approval and support. When a local government engages in strategic planning, the governing board is a crucial partner with professional management in making sure that a strategic plan is approved in principle, and that it actually gets implemented and funded. Governing boards in public organizations formulate and legitimize policy decisions, with substantial input and help from professional staff. The board and staff need to work together smoothly within a framework of mutual respect and trust. When governing
boards become dysfunctional, professional staff is often put into a defensive routine where frequent and effective innovations become difficult to pursue. This is because advocating change to dysfunctional boards involves high risk — staff members may be challenged or even attacked for suggesting something new. What, then, are the characteristics of a functional governing board?

Functional governing boards tend to share characteristics. They make decisions by consensus. They compromise and find win-win solutions. Majority-rule decisions may be needed occasionally, but these tend to create win-lose outcomes, with the losers seeking revenge at a later time. Highly dysfunctional boards are characterized by conflict between members, exemplified by stalemate and recurring factionalism. Functional boards seek solutions for the good of the whole and speak as one, with the board chair or mayor acting as facilitator. Dysfunctional boards include mavericks who always disagree with the majority and who attack the staff, disrespect colleagues, and focus mainly on narrow issues. Functional boards display mutual respect, follow their own rules, and tolerate disagreement without allowing it to become personal or negative. Finally, functional governing boards tend to see things strategically and focus on larger, bigger, and longer-term issues without becoming bogged down in trivia or minutiae.

Just like leadership credibility and team management, governing board functioning can be measured and assessed. It is possible to diagnose where a governing board may be acting dysfunctional and to treat and improve those deficiencies. A dysfunctional board creates enormous strain on the professional staff. A high level of innovation is unlikely in communities where these dysfunctional symptoms are not treated.

<table>
<thead>
<tr>
<th>Exhibit 1: A Phase Model for Diagnosing Innovation Management Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase Level</td>
</tr>
<tr>
<td>Leadership Credibility</td>
</tr>
<tr>
<td>Team Management</td>
</tr>
<tr>
<td>Governing Board Functioning</td>
</tr>
</tbody>
</table>
Midberg (not the city’s real name) provides a brief case study illustrating the salience and significance of both leadership credibility and team management in improving local government innovation. This mid-size municipality operates under the council-manager plan. Due to issues including negative press releases, a declining economic base, and a consultant report critiquing the current organizational structure, Midberg senior management decided to engage in a strategic planning process to address these concerns. Further, Midberg also chose to hire another consulting firm to help with the strategic planning process; city officials also wanted to tap this firm’s expertise in several other technical areas.

Midberg has historically used a highly differentiated bureaucratic structure with more than 20 departments reporting to the city manager and assistant managers. Imagine department head meetings with roughly 30 active participants. Authority was largely top down, with the city manager telling department heads what he wanted them to hear, and very little upward flow of communication. When told that they had to engage in strategic planning, numerous department heads balked and complained that strategic planning was a waste of time and money. Many simply wanted to be left alone to run their departments as usual, without regard to how their operations might be connected to broader administrative issues facing the city. Only a handful of department heads felt that their senior management role might require them to work together as a team to address issues involving the city as a whole. Finally, several department heads understood that a major structural reorganization and budget reform were needed.

One problem was that the Midberg city manager did not practice or possess leadership credibility skills. He did not see a clear need to frame a broad vision for innovation; he did not communicate often with his subordinates; and most importantly, he did not trust his subordinates to serve as active participants in a major reform effort. A second problem was that few department heads had experience working as executive team members, where they were expected to address and resolve complex interdepartmental issues. Hence, Midberg had poor leadership credibility and team management abilities. This was not a good situation for a city that needed to consider numerous innovations.

The consulting group discussed these observations with the city manager and department heads in separate high-energy meetings where all agreed to practice leadership and team management behaviors. The city manager developed and communicated a better vision of what he wanted from all department heads. Upward flow of communication increased. Special executive teams were created to address specific organizational and strategic issues, and they were given the authority and autonomy to make independent recommendations. A new and innovative organization structure resulted from these deliberations as well as action plans for several high-priority strategic goals involving numerous smaller innovations in service and financial areas. Without improving its leadership credibility and team management characteristics, it is doubtful whether Midberg would have achieved this magnitude of change and innovation so quickly.
Clearly, the worst scenario for innovation is Phase I. Here, the local government has insufficient characteristics in all three factors. A Phase I government is not likely to make frequent attempts at innovation, but if it does so, it will probably fail. It is also clear that Phase VIII local governments are poised to experience the highest frequency of attempted innovations that are also likely to be perceived as highly effective. Phase VIII communities have the right stuff for understanding how innovations might resolve complex puzzles, and just as importantly, have the in-house capacity for engineering innovation designs that can be implemented successfully. But what about the intermediate phases where a local government may be high on certain factors but deficient in others?

An organization’s chief executive officer (e.g., city manager or administrator, finance director, and other department heads) needs to possess high leadership credibility. Without high credibility among senior administrators, there is little chance that innovation will emanate from the bottom up, or that governing boards will advocate forcefully for innovation. The second factor in terms of salience for innovation management capacity is the level of team management among senior department heads. Since many innovations cross department boundaries, it is crucial that they be accepted, supported, and understood by the management teams at different organizational levels. Strong management teams have the capacity to customize innovations to better fit specific departmental needs and practices. Team management enables the organization to brainstorm solutions to larger problems and issues in a manner that leads to better solutions, and to overcome the anti-innovation tendencies of traditional bureaucratic structure.

Developing functional governing boards is the third most important factor related to innovation management capacity. Boards do play a very important supportive role for innovations, and conversely, by being dysfunctional, they drain the energy of the chief executive and professional staff. Governing boards can become sounding boards for innovation and can create an atmosphere where experimentation with new ideas involves low risk and high reward. At the same time, governing boards are very dependent on their chief executive and professional staff for recommending innovations. While the board may occasionally advocate for a specific innovation, it is usually up to professional staff to...
Why Become a CPFO?

The Certified Public Finance Officer certification program is designed to prepare individuals for financial leadership positions in local and state government.

Complete five exams in seven years:
- Governmental Accounting, Auditing, Financial Reporting
- Operating and Capital Budgeting
- Debt Management
- Cash Management and Investments
- Pensions and Benefits, Risk Management, Procurement

The CPFO program offers certification exams three times a year: fall, early spring, and at the annual GFOA conference. Register now for fall exams.

“While I felt confident in my knowledge of financial reporting after 15 years of producing CAFRs, studying for the exams prepared me for the broader responsibilities of my new job.”
Vivian McGettigan, MBA, CPA, CPFO, Director of Finance for Fauquier County and Public Schools

CONCLUSIONS

Local governments need to worry more about creating and sustaining an innovation-friendly administrative environment than about attempting innovations because they are in vogue somewhere else. A new fad is not necessarily what will work well for your specific organization. When Peters and Waterman described how their organizations brought about innovation, they found that these companies created the right atmosphere and conditions to allow innovative thinking to flourish. Local governments can do the same — the first step is learning more about where your organization stands in relation to the factors that induce the capacity to innovate. The tools are available and ready.

Everyone benefits when an organization increases its innovation management capacity. Learning where your jurisdiction is strong or weak in the crucial factors of leadership credibility, team management, and governing board functioning makes it possible to take steps that will address any deficiencies. Once this is done, your organization will be ready to innovate.

Notes

GERALD T. GABRIS is a distinguished teaching professor in the Division of Public Administration at Northern Illinois University. KIMBERLY NELSON is an assistant professor in the Division of Public Administration at Northern Illinois University, and CURTIS H. WOOD, an associate professor.