

**INNOVATIVE CITY GOVERNMENTS: A TRANSACTION COST
APPROACH TO EXPLAIN PUBLIC INNOVATION IN MID-SIZED
CITIES OF INDONESIA AND THE PHILIPPINES**

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NATIONAL UNIVERSITY OF SINGAPORE

2015

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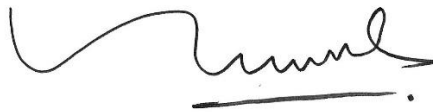
**A THESIS SUBMITTED
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY
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2015

DECLARATION

I hereby declare that the thesis is my original work and it has been written by me in its entirety. I have duly acknowledged all the sources of information which have been used in the thesis.

This thesis has also not been submitted for any degree in any university previously.

A handwritten signature in black ink, appearing to read 'Mulya Amri', written over a horizontal line.

Mulya Amri
12 November 2015

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12 November 2015

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Summary

Why are some city governments more innovative than others? In this thesis, I provide a theoretical framework that combines conventional explanations, namely leadership and society, with an arguably less-conventional one based on theories of transaction cost. The 'leadership, society, transactions' (LST) framework examines the extent to which transformational leadership, progressive society, and efficient transaction costs could help explain the governance of 'innovative' and 'typical' cities of the Philippines and Indonesia.

Conventional explanations of innovation in city governance largely hinge on two main camps: leadership (charisma, commitment, and diversity of experience) and society (norms and values, organization of civil society, and history). The notion of transaction costs was initially developed to explain different governance structures (Williamson 1996, 1979, Coase 1937). They include the costs of obtaining information, of engaging in negotiations, and of monitoring and enforcing a contract (Dahlman 1979). While transaction costs have been used to explore a wide range of questions, it has rarely been used to explain public innovations.

This thesis expands the application of transaction cost analysis on city governance innovation. Drawing from data of public innovation award winners and additional background checks, I identified four 'innovative' and four 'typical' mid-sized city governments in Indonesia and the Philippines. Next, I conducted fieldwork to explore the extent to which transformational leadership, progressive society, and efficient transaction costs were present in these cities over a period of 10-20 years.

I find that the four 'innovative' city governments showed notable presence of all three explanatory factors while 'typical' city governments tend to lack one, two, or all three factors. Two cities deserve a special note: Dagupan (the Philippines) showed that a combination of transformational leaders and progressive society were not sufficient to explain innovativeness when the city's leaders constantly faced high transaction costs of governing. Meanwhile, Samarinda (Indonesia) showed that having efficient transaction costs were similarly insufficient to enable innovativeness without transformational leadership and progressive society.

These findings raise questions about the dominance of the leadership (agency) and societal institutions (structure) arguments in explaining innovation. Instead, I argue that a mezzo-level structure linking leaders with their social and political setting is present in the form of transaction costs, and that they, too, may play a role in explaining public innovation. These provide implications for policy makers, especially the national government, in their attempt to enable more public service innovations at the local level. The findings also highlight opportunities for further research in the application of institutional analysis on public management and urban governance, especially in mid-sized cities.

The research faced some limitations in the lack of objective and quantifiable data on public innovation, leadership, and social norms at the local level. Despite efforts to ensure validity, issues of endogeneity persist and biases may have influenced the selection of cases, the answering of interview questions, and the analysis of data. The transaction cost framework to explain local public innovation is in an early stage and would benefit from further empirical work. Growing interest in urbanization and the governance of cities provide more opportunities to do so.

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List of Abbreviations & Terminology

AAA	Highest level of contractor's license, given by the Philippine Contractors Accreditation Board
ACF	Advocacy Coalition Framework - a public policy framework by Sabatier (1988)
AIMM	Urban Poor Alliance of Malabon City, the Philippines
APEKSI	<i>Asosiasi Pemerintah Kota Seluruh Indonesia</i> - Indonesian Association of City Governments
ASEAN	Association of Southeast Asian Nations
<i>Barangay</i>	The smallest local government unit in the Philippines
BF	Bayani F. Fernando (Mayor of Marikina City, the Philippines, 1992-2001)
CMP	Community Mortgage Program (of the Philippine government)
CPR	Common pool resources
CSO	Civil society organizations
CSR	Corporate Social Responsibility
DAU	<i>Dana Alokasi Umum</i> (general purpose grant) - Indonesia
DILG	Department of Interior and Local Governments (of the Philippines)
DPR	<i>Dewan Perwakilan Rakyat</i> - the national legislative agency of Indonesia
DPRD	<i>Dewan Perwakilan Rakyat Daerah</i> - regional legislative agencies in Indonesia
FOSS	Free and Open Source Software
GP	<i>Galing Pook</i> ('Great Places' in Filipino). Refers to: (1) award for 'innovation and excellence in local governance', (2) foundation administering the award.
GRDP	Gross Regional Domestic Product
ICT	Information and communications technology
ID	Indonesia
IGA	Innovative Government Award - Indonesia
IMP	<i>Inovasi Manajemen Perkotaan</i> ('Urban Management Innovation'). A national award for innovative urban management in Indonesia.
IRA	Internal Revenue Allotment – the Philippines
JATAM	<i>Jaringan Advokasi Tambang</i> (Advocacy Network for Mining Issues). An Indonesian NGO
<i>Kecamatan</i>	Sub-district (Indonesian) - sub-city government unit
<i>Kelurahan</i>	Village (Indonesian) - smallest local government unit of Indonesia. Used primarily in the urban context.

LCP	League of Cities of the Philippines
LGU	Local Government Unit
LST	Leadership-Society-Transactions (a theoretical framework offered in this thesis)
MCF	Marides Carlos Fernando (Mayor of Marikina City, the Philippines, 2001-2010)
MNDC	Metro Naga Development Council
MMDA	Metro Manila Development Authority
MOH	Ministry of Home Affairs (of Indonesia)
MS	Multiple Streams - a public policy framework by Kingdon (1984)
NCPC	Naga City People's Council
NCR	National Capital Region of the Philippines. Also known as 'Metro Manila'.
NGO	Non-government organization
NPM	New Public Management - a paradigm of public administration
OECD	Organization for Economic Cooperation and Development
PH	The Philippines
PIP	Productivity Improvement Program (of Naga City, the Philippines)
PNPM	<i>Program Nasional Pemberdayaan Masyarakat</i> (National Community Empowerment Program of the Indonesian government)
PO	People's organization
QCA	Qualitative Comparative Analysis
R&D	Research and Development
RW	<i>Rukun Warga</i> - Community-level organization in Indonesia
Sinovik	<i>Kompetisi Inovasi Pelayanan Publik</i> (Public Service Innovation Competition) - Indonesia
TC	Transaction cost
UCLG	United Cities and Local Governments
UN-HABITAT	United Nations Programme on Human Settlements
UP	University of the Philippines

Chapter 1: Introduction

This thesis attempts to explain why some city governments have been more innovative¹ than others. It does so by offering a new theoretical framework that combines more conventional explanations, namely leadership and society, with an arguably less conventional one drawn from the theories of transaction cost. The ‘leadership, society, transactions’ framework examines the extent to which transformational leadership, progressive society, and efficient transaction costs were present in the governing of ‘innovative’ and ‘typical’ cities over extended periods of time. The research focuses on medium or mid-sized cities in the Philippines and Indonesia to acknowledge notable gaps in the literature.

Public Innovation

The first decade of the 21st century saw a rise in the number of prestigious global awards for city government innovations. The *Lee Kuan Yew World City Prize* (since 2008), the *Innovative City of the Year Award* (since 2013), the *Guangzhou International Award for Urban Innovation* (since 2014), and Bloomberg Philanthropies’ *Mayors Challenge* competition (since 2014) were just a few of the recently established initiatives to acknowledge bold ideas well-implemented by city governments.²

¹ ‘Innovative’ and ‘innovativeness’ refer to the introduction of a large number of (public) innovations over time

² These awards were generally conducted by or in collaboration with notable research or government institutions, such as Singapore’s Urban Redevelopment Authority (*Lee Kuan Yew World City Prize*), the Urban Land Institute (*Innovative City of the Year Award*), United Cities and Local Governments and Metropolis (*Guangzhou Award*), as well as LSE Cities, Nesta, and EuroCities (*Mayors Challenge*).

At the national and regional level, these awards have started at least since the 1980s. The U.S. was among the first to recognize local public innovations through the *Innovations in American Government Award*, which started in 1986 at the Harvard Kennedy School. Meanwhile, in Europe, we find the *European Public Sector Award* (since 2008) and in Africa, the *All Africa Public Sector Innovation Awards* (since 2005). In Asia such initiatives include the *Chinese Local Governance Innovation Award* (hosted by the Central Party School and Peking University since 2001) and Indonesia's *Urban Management Innovation Award* (hosted by the Ministry of Home Affairs since 2008). In the Philippines, the *Galing Pook Award* for innovation and excellence in local governance began earlier in 1993 by the Department of Interior and Local Governments, in line with the start of the country's massive decentralization effort. Various public organizations to support innovation have also been established, such as MindLab in Denmark, *La 27e Région* in France, Galing Pook Foundation in the Philippines, and *Laboratorio para la Ciudad* in Mexico City. Some cities have also revised their management approach to enable more creativity in the conduction of public affairs (Berman and Kim 2010).

Along with increased public attention, academic studies of public innovation have expanded considerably. In the 1970s and 1980s, such studies mainly used cases to critique the predominantly risk-averse culture of the public sector (i.e., Windrum and Koch 2008 provides a review of past studies). Since the 2000's, however, there have been more quantitative research on the topic. Some of these took the sampling frame from past innovation award winners (Grady 1992, Borins 2000b, 2001, 2014); others from surveys of local government officials, such as those conducted in the UK (Walker 2006, Audit Commission 2007), Australia (Arundel and Huber 2013, Considine and Lewis 2007), the Nordic countries (Bloch and Bugge 2013, Bloch 2011), the Philippines (Capuno 2011), and Thailand (Lorsuwannarat 2013).

Public innovation arguably provides an opportunity to better understand the processes of public policy-making. The phases of public innovation is similar to those found in a public policy 'cycle', such as agenda-setting, policy formulation, decision-making, implementation, and evaluation (Jann and Wegrich 2007, Howlett, Ramesh, and Perl 2009). For example, Eggers and Singh (2009) provides a 'policy innovation cycle' with four phases: generation and discovery, selection, implementation, and diffusion. Similarly, Albury (2005) proposed a 'framework of public sector innovation' which is similarly a 'cycle' which include generating possibilities, incubating and prototyping promising ideas, replication and scaling up, and analysis and learning.

Despite more research on public innovation, there remains a dearth of theoretical propositions on factors that drive city governments to be innovative. Much of the attention still remains on the descriptive side, such as clarifying definitions, establishing boundaries, developing typologies, and identifying the objectives, outcomes, and key issues of public innovation (for example, see Osborne and Brown 2013, Stewart-Weeks and Kastle 2015, De Vries, Bekkers, and Tummers 2015). Answers to the 'why' of public innovation tend to be provided as lists of factors that are conducive to innovation. Among others, such list include: (1) leadership and culture, (2) pulls and pushes, (3) creativity and recombination, (4) prototypes and pilots, (5) scaling and diffusion, and (6) sophisticated risk management (Mulgan 2007). Another list presents four institutional factors that encourage and discourage local public innovation: (1) national politics, (2) networks and partnerships, (3) incentives, and (4) citizen or user demand (Newman, Raine, and Skelcher 2001).

A more comprehensive theoretical framework is offered in the form of a 'public sector innovation ecosystem' which includes four overlapping and 'mutually dependent' factors, namely consciousness, capacity, courage, and co-creation (Bason 2010). On the same note, a strong argument has been made on the importance of power, networks, norms, and procedures in determining the likelihood of innovation in government (Considine, Lewis, and Alexander 2009). However, such explanatory offerings are still rare.

Further exploration of the literature on similar concepts to 'innovation', such as 'development', 'progress', and 'change', found heavy emphases on the role of individuals (agents) and society (structure). The leadership argument tends to be popular in explaining change and innovation as it confirms the intuition of some people in developing countries who see themselves as 'paternalistic' (KEMENPANRB 2013, Kasuya 2009). Meanwhile, the society argument tends to be popular in explaining stasis or lack of innovations as it adheres to many people's understanding on the institutional difficulties of introducing change. However, so far, no theoretical framework that links leadership, society, and public innovation has been offered.

Opportunities for Research Contribution

There are at least three opportunities to contribute to the development of the literature on public innovation: (1) applying insights from institutional analysis, (2) expanding the topic to mid-sized cities, and (3) expanding the topic to the context of Indonesia and the Philippines.

First, the literature on public innovation could benefit from insights from related academic fields such as institutional analysis (Ménard and Shirley 2008, Ostrom 2005). The notion of 'innovation' shifts the emphasis of public management away from mere efficiency, and places a larger premium on achieving effectiveness,

disrupting routines (Bessant 2005), taking risks (Bhatta 2003), building trusts (Potts 2009), and co-creating through networks and partnerships (Alves 2013, Bason 2010). Some of these themes are related to the notions of 'transaction costs' (Williamson 2010), which have been explored more extensively in the field of institutional analysis.

Transaction costs have been utilized to approach a wide range of questions. In relation to innovation, there has been much discussion on the relationship between the form and size of an organization and its likelihood to adopt innovations (Damanpour 1987, 1992, Wolter and Veloso 2008). Transaction costs have also been linked to the processes of learning across different organizations or 'open innovation' (Nooteboom 2007, Remneland-Wikhamn and Knights 2012, Kortelainen, Kutvonen, and Torkkeli 2012). More specifically on cities, the transaction cost approach has been used to explain high occurrence of private innovation in certain cities, where it is argued that the presence of trust, networks, and other forms of social capital contribute to lesser transaction costs, greater positive externalities, and create a more conducive environment for open innovation (Piore and Sabel 1984, Storper 1993, Saxenian 1996). Similar applications of transaction cost analysis on public management issues, however, have been rarely found.

Second, there is an opportunity to expand the literature on urban studies. With increasing awareness of urbanization and the important role of cities (Glaeser 2011, Dobbs et al. 2011), the spotlight is shifting to city governments and city leaders (Barber 2013). In the developed and developing world alike, city governments are expected to deliver not just performance, but also innovations to solve new types of problems and/or old problems of unprecedented scale. Topics related to cities and urban regions, such as urban politics (Judge, Stoker, and

Wolman 1995, Cox 1995), urban competitiveness (Begg 1999, Ni and Qiongjie 2014), the creative and cultural industries (Florida 2002, Landry 2008), social equity (Fainstein 2010, Harvey 1988), and the role of civil society (Douglass and Friedmann 1998) in the city are now at the forefront of policy makers' and scholars' attention. Issues related to 'managing fast growing cities' have been well documented (for example, see Devas and Rakodi 1993). Substantial research has also been conducted on prominent urban areas, such as 'global' or 'world' cities (Newman and Thornley 2005, Sassen 2001, Massey 2007) and various metropolitan regions of the world (Jones 2002, Jones and Douglass 2008, Laquian 2005, Forbes 1996).

However, there have been limited studies on second-tier and medium-sized cities. Consequently, we know much less on the specific issues faced by mid-sized cities, including the ways in which they deal with their problems with the limited capacity that they have. With a few exceptions (Fulton 2002, Hildreth 2007, Klinken and Berenschot 2014), existing research on mid-sized cities tend to be more economic-focused (Bolton and Hildreth 2013, Markusen, Lee, and DiGiovanna 1999, Puissant and Lacour 2011). More research on secondary and medium-sized cities would be welcomed considering their fast growth (United Nations 2014), their sheer number compared to large and metropolitan cities (Giffinger et al. 2007), and their role in enabling further urbanization without adding too much pressure on primary and major cities.

Third, there is also an opportunity to expand the literature on decentralization and local public management. The management of cities is closely related to the level of authority that city governments have. As more developing countries adopted devolution since the 1970s and 1980s, there has been increasing interest in local government capacity, the ways in which they are managed, and how

they relate with other actors in the context of local governance (for example, Ahmad and Brosio 2009, Bardhan and Mookherjee 2006, Martinez-Vazquez and Vaillancourt 2011, Grindle 2007). In Asia, a substantial amount of study has been conducted on how Chinese cities have been governed in a largely autonomous way, despite the country's single party system (Ma and Wu 2005, Wong, Tang, and van Horen 2006, World Bank 1993, Akhmat and Bochun 2010).

However, there has been less exploration of local public management issues in Indonesian and Philippine cities. Among Asian countries, the Philippines and Indonesia have been at the forefront of applying wide-scale decentralization in the form of devolution. The extent and pace of both country's decentralization – much linked to their quick transition from authoritarian to democratic regimes – has been remarkable compared to that which took place in other countries (Balisacan and Hill 2007, World Bank 2005). Along with decentralization, Indonesia and the Philippines similarly have been facing issues to ensure that local governments deliver quality public services. Awards for local government performance and innovations have been a widely used tool for this purpose, arguably more so in the Philippines and Indonesia compared to other Asian countries. However, not much research has been done based on data drawn from these awards.

Research Questions

The preceding background identified three research topics that converged in this thesis, namely public innovation, mid-sized cities, and the Philippines and Indonesia. The primary research question explored in this thesis is: “Why are some city governments more innovative than others?”

Using cases from the Philippines and Indonesia, I breakdown this question into four sub-questions:

1. To what extent was *transformational leadership* present in innovative and typical city governments?
2. To what extent were innovative and typical city governments embedded in a *progressive society*?
3. To what extent did leaders of innovative and typical city governments face *efficient transaction costs* of governing?
4. How did *leadership, society, and transaction costs* factors manifest themselves in innovative and typical city governments over time?

1. Hypotheses and Findings

Existing Explanations

Conventional explanations of innovativeness largely hinge on two main camps: leadership and society. The leadership argument highlights the importance individual characteristics of leaders that support organizational development, such as charisma, commitment, and diversity of experience. This argument seems to explain the case of some local governments that were innovative under the leadership of one mayor, while not so innovative under the leadership of the subsequent mayor. However, it does not explain why some cities remain consistently innovative over the years, mayor after mayor.

The society argument highlights the importance of deep-rooted institutions that are present in the city's society, such as norms and values, local associations and organizations, as well as the city's recent and distant history. This argument seems to explain cases of some city governments which are innovative and have a progressive society. However, it does not explain the phenomenon of some cities

with unfavorable structural variables that have over time transformed themselves for the better, despite the odds.

Notions of individual actors (i.e., leaders, public entrepreneurs, policy brokers) and institutions (i.e., beliefs, networks, path dependency) have been similarly explored in the policy studies literature to explain why policies may or may not change. Policy change frameworks provide meso-level explanations that explore interactions between the 'agent' and the 'structure'. However, most of these frameworks do not offer a theory about which circumstances contribute to making policy change more likely.

Proposed Explanation

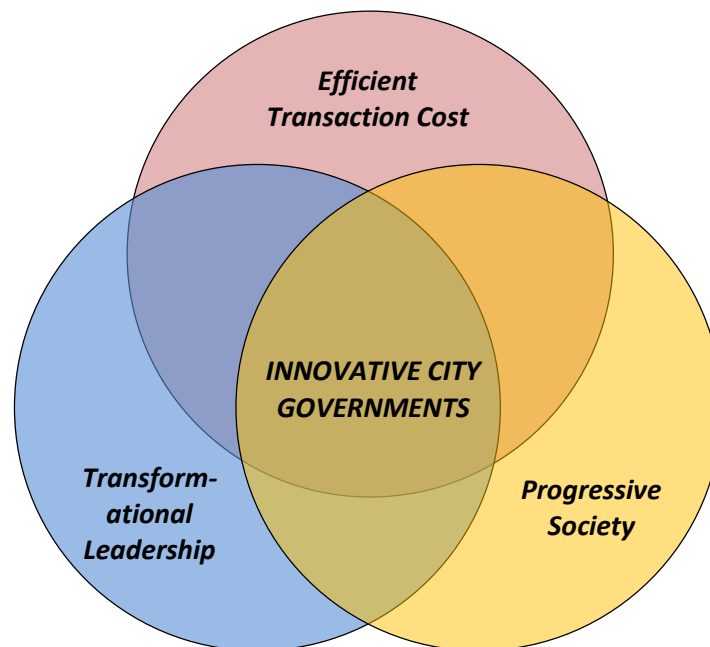
This research offers a third viewpoint to explain public innovativeness which is based on transaction cost theories. The notion of transaction costs was initially developed to explain the existence of different governance structures (Williamson 1996, 1979, Coase 1937), but it has also been applied to explain innovation in the private sector, innovation in the city, and delivery of public services and public goods. This thesis argues that transaction cost perspectives could give insight to explain public innovativeness in ways that it has not been explained before.

Transaction costs can be understood as 'the costs of running the economic system' (Arrow 1969). It includes: (1) information costs, which are related to the costs of 'learning' about the 'market', (2) negotiation costs, or the costs of reaching an agreement with different parties, and (3) enforcement costs, which are the costs of making sure the agreement is carried out (Dahlman 1979). The New Institutional Economics literature argues that economic activities take different forms (ranging from buying goods and services in the open market to producing them in-house) based on the goal of 'economizing' on transaction costs (Williamson 2010).

The notion of transaction costs is developed based on the private sector context, where it is assumed that economic activities will take place somehow because economic actors need to generate profit. However, extending this argument to the public sector (where conducting innovations is not a requirement, but a risky activity), it could be argued that if transaction costs to conduct innovations were too high, such innovation may not take place to begin with.

This research combines the existing explanations of leadership and society with the proposed explanation of transaction costs into a unified 'Leadership-Society-Transaction Cost' framework. The framework explores the 'presence' or 'absence' of the three explanatory factors in a city, and expects that city government innovativeness may be related to the presence of transformational leadership, progressive society, and efficient transaction costs over time.

Figure 1: The 'Leadership, Society, Transactions' Framework



(For detailed discussion, refer to Chapter 3)

Methodology

The research explores four ‘innovative’ and four ‘typical’ (non-innovative) governments of mid-sized cities in the Philippines and Indonesia (see Table 1). The ‘innovative’ cases were selected by identifying cities which have won a relatively large number of innovation awards. The ‘typical’ cities were selected from a sampling frame of non-winners, with a number of background checks to ensure that they have not introduced notable innovations despite not winning awards, and other measures to ensure apple-to-apple comparison with ‘innovative’ cases.

Fieldwork and desk study of the eight cases generated primary data in the form of interviews and observations, and secondary data in the form of formal city statistics, policy documents, and media articles spanning a period of 10-20 years. The data was then coded into themes, packaged as analytic narratives, and further analyzed using the Qualitative Comparative Analysis (QCA) method. The analysis aims to identify the extent to which each of the three explanatory factors was ‘present’ or ‘absent’ in the innovative and typical cases.

Table 1: Eight City Governments Studied in the thesis

	Philippine Cities	Indonesian Cities
‘Innovative’ Cases	<ol style="list-style-type: none">1. Marikina City, National Capital Region2. Naga City, Camarines Sur	<ol style="list-style-type: none">1. Balikpapan City, East Kalimantan2. Pekalongan City, Central Java
‘Typical’ Cases	<ol style="list-style-type: none">1. Malabon City, National Capital Region2. Dagupan City, Pangasinan	<ol style="list-style-type: none">1. Samarinda City, East Kalimantan2. Tanjungpinang City, Riau Islands

Findings

The four 'innovative' city governments studied in this thesis showed notable presence of transformational leadership, progressive society, and efficient transaction costs over time. Meanwhile, 'typical' city governments tend to be lacking in one, two, or all three explanatory factors. This seems to suggest that the three explanatory factors may have some association with innovativeness. Out of the four 'typical' cases, two lacked all three explanatory factors, while the other two defied both conventional (leadership and society) explanations as well as the proposed transaction cost-based explanation.

First, Dagupan City in the Philippines showed relatively consistent presence of transformational leadership and progressive society, but was not identified as an 'innovative' city. Upon further review, it was found that Dagupan's leaders faced largely unfavorable transaction costs of governing the city. This seems to point out that leadership and society factors, alone or together, could not fully account for innovativeness.

Second, Samarinda City in Indonesia showed the presence of efficient transaction costs, but was similarly not identified as an 'innovative' city. Upon reviewing the three explanatory factors, it was found that the city lacked having consistent presence of transformational leadership and progressive society over time. Samarinda showed that having efficient transaction costs, alone, were not sufficient to make it an 'innovative' city.

Through a more detailed analysis that takes history into consideration (reviewing how leadership, society, and transaction costs manifest over time in each city), another 'special case' was identified. Marikina City in the Philippines showed that innovativeness could be achieved by a strong leader with favorable transaction

costs, even if the characteristics of a progressive society were not present. Over time, a consistent presence of transformational leaders institutionalized the reforms, and facilitated the transformation of civil society to be better organized and more meritocratic. However, the odds of relying on such leaders are small.

The research findings problematize conventional claims on the primacy of leadership (agency) alone and deep-rooted societal institutions (structure) alone. Instead, it argues that a meso-level structure that links leaders with their social setting is present in the form of transaction costs. Transaction costs arguably play an important role in a framework that explains local public innovativeness; however, they are similarly insufficient. The three explanatory factors need to be examined together as one framework.

2. Scope and Limitations

The scope of this research needs to be delineated, and some terms need to be clarified. First, the phenomenon being studied, namely 'public innovativeness' should not be taken as inherently virtuous. Innovation may not necessarily lead to improvement (Hartley 2005). For example, by innovating an organization may experience (temporary) decline of performance due to a 'learning process'. Moreover, politically the results may not be beneficial for all segments of the society. Many of the award-winning city government innovations have not gone through an ex-post impact evaluation. However, by adopting a specifically public-sector view of innovation as 'new ideas that work at creating public value' (Mulgan 2007), this thesis intends to associate public innovations with improvements in outcomes and processes that benefit the greater society.

Similarly, the key explanatory factor proposed in this research (transaction costs) is not an inherently virtuous concept. Political and administrative transaction costs measure the ease in which decisions could be made and activities could be conducted. This thesis argues that the presence of low transaction costs could help city leaders conduct innovations. However, whether this is used for good purpose or based on good intention is not discussed. Arguably, authoritarian systems and indifferent societies provide leaders with very 'favorable' transaction costs in running the government. In the context of direct democracy, however, awareness of transaction costs is beneficial to help ensure that bold, impactful initiatives do not become nullified by political and administrative hassles.

Second, although transaction costs originally came from the domain of economics, the transaction costs explored in this thesis are mostly political and administrative costs. The analyses, therefore, do not include monetization or econometric modeling of such costs, as these were not deemed to be expressly necessary to answer the research questions. Rather than measuring the extent of such costs in continuous or ordinal construct, a dichotomous or binary construct was used. This answers the question of whether a city government faced low information, negotiation, and enforcement costs in largely 'Yes' and 'No' terms. This was arguably appropriate for the Qualitative Comparative Analysis methods used in the analysis (more about this in chapter 3).

Third, the topic of the thesis is ultimately about public 'innovativeness', not 'innovations'. Here, 'innovativeness' refers to the extent to which city governments have been acknowledged for conducting innovations over multiple years. The research therefore does not describe each innovation in detail, and does not distinguish the different types of innovation that the city has conducted. Some

award-winning programs are described in the case reports (chapters 4 and 5) solely as illustration of the types of innovative programs that were conducted. Consequently, program-specific details such as how the innovation was implemented and who were involved were not explored.

Fourth, the research embraces a wide spectrum of what is considered as ‘innovation’ and does not discuss the extent to which the innovations were truly ‘new to the world’. Indonesia and the Philippines both fall under the World Bank classification of ‘lower-middle-income’ economies with GDP per capita between \$1,046 and \$4,125 in 2015,³ where public and private spending on research and development tend to be much smaller than in developed countries. Thus some of the city governments’ award-winning programs may not be ‘breakthrough’ innovations based on the latest technologies or intensive research and development, and may have been adopted or ‘learned’ from an existing example.

Fifth, the notion of ‘medium’ to denote city size is relative.⁴ In this research, ‘mid-sized’ refers to cities with population between 100,000 and 1 million. In the context of China, for example, a city of four million may be considered as ‘mid-size’. But the Philippines have only four metropolitan areas with more than 1 million people: Metro Manila (about 11.8 million), Metro Cebu (2.5 million), Metro Davao (2.2 million), and Metro Cagayan de Oro (1.2 million). Out of the country’s 144 cities, the majority (90 cities) have between 100,000 and 500,000 population in 2010. Indonesia may have some larger metropolitan areas, such as Greater Jakarta (about 28 million), Greater Bandung (7.8 million), and Greater Surabaya (6.5 million). But

³ <http://data.worldbank.org/about/country-and-lending-groups>

⁴ Countries classify city size in various ways, mostly based on population. For example, mid-sized cities are defined by a population range of 250,000 to 500,000 (U.K.), 100,000 to 300,000 (U.S.), and 200,000 to 700,000 (Vietnam). In Indonesia, second-tier cities may include ‘large’ (but not ‘metropolitan’) cities with a population between 500,000 and 1 million, and ‘medium’ cities with 100,000 to 500,000 inhabitants.

among the country's 93 autonomous cities, only 12 had more than 1 million people in 2010. The majority (58 cities) had between 100,000 and 500,000 residents.

Sixth, a 'city' in this research refers to a political and administrative entity, rather than a functional urban agglomeration. It is a populated geographic area delineated by law, governed by a city government organization, and fulfils some criteria adopted by the national government that identify it as a 'city'.⁵ Since this research focuses on the topic of public management, and does not particularly address issues related to regional economics and governance, whether or not the 'city' in question is part of another city's greater metropolitan area is not considered as a key defining character.

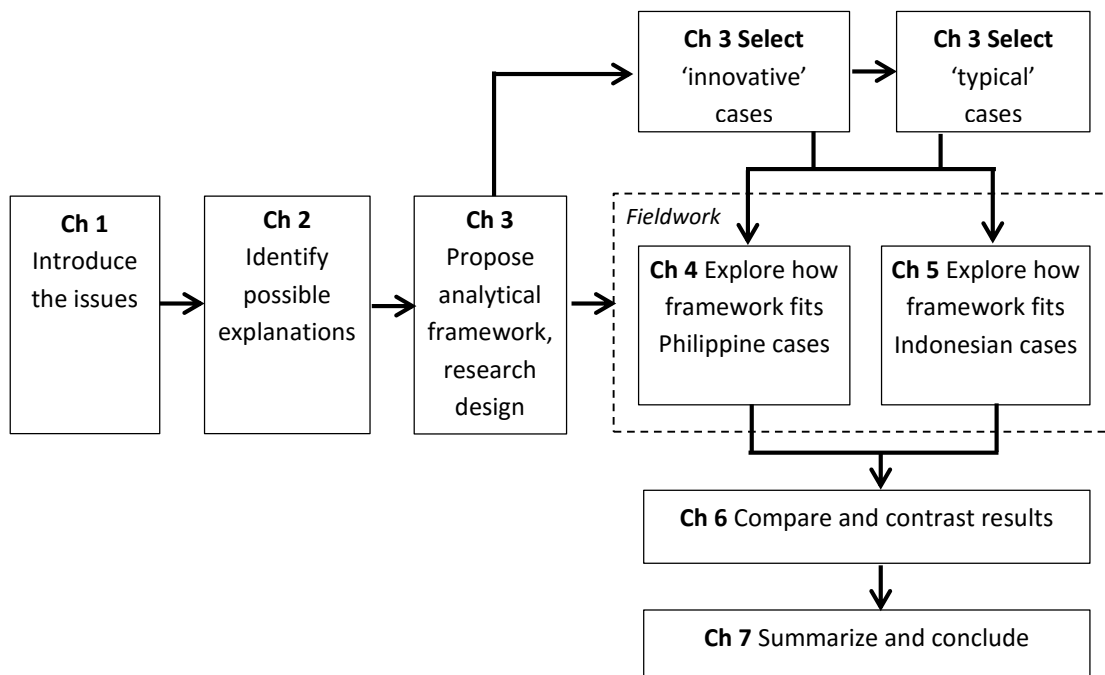
Seventh, both the Philippines and Indonesia are relatively 'new' multi-party democracies that have implemented extensive decentralization. This makes them subject to conditions which may be different from those faced by well-established democracies, limited democracies, or non-democracies. For example, in Indonesia and the Philippines city mayors are directly elected, as are members of the city council. Also, most city governments in Indonesia, as well as 'highly-urbanized' and 'independent component' cities in the Philippines are politically autonomous entities. This means that in the conduction of local affairs, their liability to the provincial and national governments is limited. The transaction costs that they face, therefore, are different compared to those faced by non-autonomous cities, as well as cities in single-party states and other limited types of democracies.

⁵ Such criteria typically include higher density, large presence of service or manufacturing industries, and availability of social and administrative facilities, among others

3. Structure of the Thesis

The thesis is organized in seven chapters, reflective of the sequence in which the research was actually conducted (see Figure 2). Chapter 1 has provided a starting point into the research by presenting its motivations, the questions that it aims to answer, its scope and limitations, and expected contributions.

Figure 2: Structure of the Thesis



Chapter 2 (Literature Review) explores the state of knowledge on public innovation and the factors that may explain it. It reviews innovation in general, examines why public innovation is slightly different but ultimately similar to innovation in the private sector, and explores how economists and policy scholars have attempted to explain innovation and closely-related concepts such as 'development', 'progress', and 'change'. Much of the explanation hinges on two factors: leadership, actors, or 'agents' on the one hand, and society, deep-rooted institutions, or 'structure' on the other hand. This thesis also draws from the

literature on transaction costs to propose a third factor that is expected to shed light on public innovation, namely how leaders interact with their surrounding environment.

Chapter 3 (Methodology) explains the process in which answers to the research questions were sought. It starts by proposing an analytical framework that underpins the research (the LST framework), and defines how the key outcome phenomenon (public innovativeness) and explanatory factors (leadership, society, and transaction costs) are operationalized in this research. Next, the chapter describes the data sources and data analysis procedures, which include the Qualitative Comparative Analysis and Analytic Narrative. Lastly, issues of research quality, such as reliability and validity, are addressed.

Chapters 4 and 5 (the Philippine and Indonesian case reports, respectively) describe the findings from eight cities. The chapters start with a brief overview of local governance mechanism in each country, followed by an analytic narrative of each case to describe the city's social, economic, and geographic context. Conditions related to the city's leadership and society, as well as transaction costs faced by city leaders over the past 10-20 years are explored in more depth based on the data collected. Each case ends with an assessment of whether or not the city has had favorable leadership, society, and transaction costs.

Chapter 6 (Comparisons and Analysis) reviews the findings as presented in Chapters 4 and 5. There are three ways in which the findings are compared and contrasted. *First*, comparisons were made between 'innovative' and 'typical' city governments, leading to explanations of what may have contributed to certain cities being innovative. *Second*, comparisons were made across different time periods in each city. This allows a historical analysis of the sequence in which transformational

leadership, progressive society, and efficient transaction costs manifest themselves in each city over a 10-20 year time period. *Third*, comparisons were made between the Philippine and Indonesian cases to understand possible variations in local innovativeness among the two countries. This is also done to acknowledge or check whether such variation may have contributed to some bias that affected how the innovative and typical cases were distinguished.

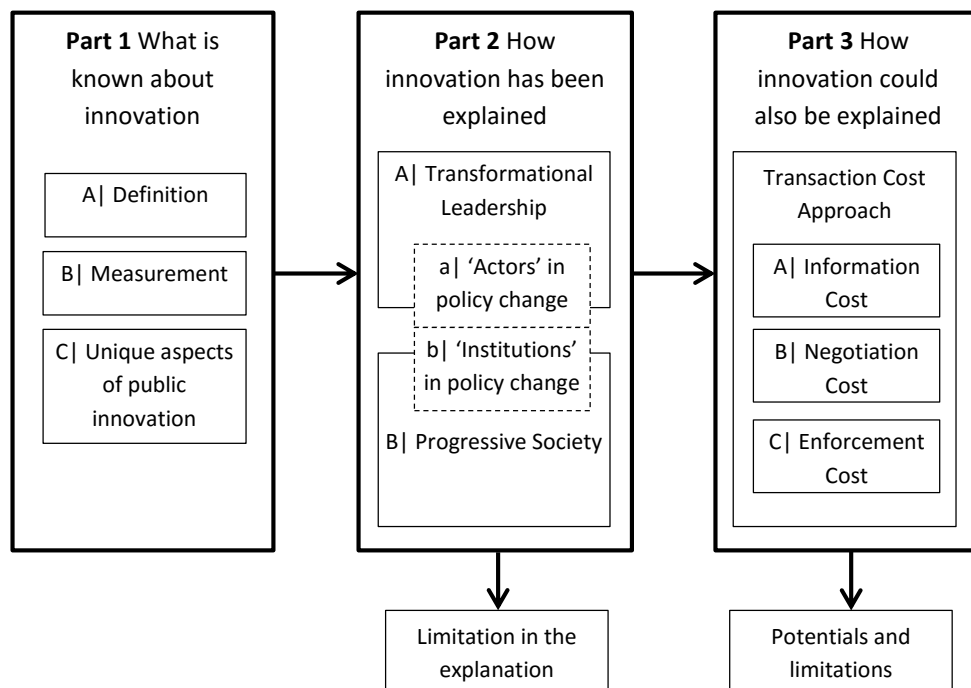
Chapter 7 (Conclusions) provides a summary of the findings, and continues to offer policy implications for government agencies and donor agencies. It closes the thesis by reviewing the contributions that it hopes to make to the literature, as well as its limitations and future research opportunities.

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Chapter 2: Literature Review

This chapter presents a review of the literature on innovation (see Figure 3). First, it covers the different ways in which innovation has been defined and measured, and highlights some unique aspects about *public* innovation that distinguishes it from private innovation. Second, it describes the ways in which innovation and policy change have been predominantly explained, namely through the role of individuals (leaders, entrepreneurs, etc.) and institutions (society, structure, etc.). Finally the chapter proposes an alternative approach to explain innovation, which is based on the transaction cost analysis. The theories explored in this chapter form the basis upon which this research is conducted (as will be explained in the following chapter on methodology).

Figure 3: Structure of the Literature Review



1. Innovation

a. Defining Innovation

Innovation is defined as the implementation of something new. Different from invention, which is about coming up with new ideas, innovation is about putting those ideas to work. The Oslo Manual, which is the OECD-standard 'guideline for collecting and interpreting innovation data' in the business sector, defines innovation as:

"...the implementation of a new or significantly improved product (good or service) or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations."
(OECD/Eurostat 2005, para. 146)

This simple definition can be viewed from at least four angles, highlighting the inclusiveness of the term. First, based on what is new, innovation can be seen as *product* innovation or *process* innovation (Swann 2009). In the context of public sector innovation, a product innovation typically involves the provision of a new form of public service. Process innovation, on the other hand, includes new ways in which a product is made or a service is provided. Taylorism, Fordism, Lean and Flexible production systems are some of the process innovations in the manufacturing sector. In the public sector, reforms under the New Public Management banner are largely process innovations.

Second, by examining the extent of novelty, an innovation can be considered as *radical* or *incremental* (Bessant 2005, Moore 2005, Albury 2011, Borins 2000a). Radical innovation⁶ has wide-ranging effects and often results in an

⁶ 'Radical' innovation is also known as 'breakthrough', 'discontinuous', 'disruptive', 'systemic', or 'holistic' innovation

existing product or process being rendered obsolete and abandoned. Radical innovation is argued to stem of a process of ‘bisociation’, or the recombination of indirectly-related knowledge (Koestler 1964). On the other hand, incremental innovation⁷ offers minor improvements that are continuous and accumulative. Most (90 to 94 percent) of innovation is arguably incremental (Tidd, Bessant, and Pavitt 2005). This type of innovation is closely related to the notion of continuous and accumulated learning, and tends to be facilitated by stronger specialization and clearer divisions of labor, as in larger companies (Swann 2009).

Third, based on the initial source of idea, innovation can be *original* or *learned* (Lee and Rodríguez-Pose 2013). An original innovation is one that has not been implemented by any other organization or in any other context. It entails much creative aspect and can be considered as ‘new to the world’. A learned innovation, on the other hand, is a deliberate attempt to implement something based on the experience of another. Fitting an existing program or project in a new context requires some form of ‘reinvention’ or ‘adaptation’ (Hartley 2005, 27), and thus it can be identified as innovation that is ‘new to the enterprise’ (Tidd, Bessant, and Pavitt 2005). In the public policy literature, learned innovation is heavily related to the concepts of policy learning (Rose 1991, Bennett and Howlett 1992), policy transfer (Evans 2004, 2009), policy diffusion (Gray and Walker 1973), and policy convergence (Bennett 1991), and policy isomorphism. In the urban studies field, it is close to the notion of ‘urban inter-referencing’ (Phelps et al. 2014).

Fourth, based on its motivation, innovation can be considered as *compulsory* or *voluntary* (Lorsuwannarat 2013, Windrum and Koch 2008). A compulsory or ‘top-down’ innovation happens when an organization which has higher level of authority

⁷ ‘Incremental’ innovation is also known as ‘stable’, ‘steady-state’, or ‘partial’ innovation

instructs others to implement a new program, usually based on a standard model. A voluntary or 'bottom-up' innovation is when such innovation is conducted without compulsion from a higher level authority. Much of the studies on local public innovation in the US in the 1970s were related to the diffusion of compulsory innovation, or how states and city governments implemented new federal government programs (Gray and Walker 1973, Walker 1969). This is closely related to the field of implementation in the policy studies literature (Bardach 1977, Sabatier and Mazmanian 1980).

b. Measuring Innovation

Measuring innovation is not a simple matter (Unger 2005, OECD 2007). In the private sector, industry surveys, patent registration, and research and development (R&D) spending have been utilized to measure or proxy for innovation. However, each of these methods has drawbacks.

The Community Innovation Survey has been conducted by EU member states on a biannual basis to understand innovation activities in Europe's private enterprises (OECD/Eurostat). However, a wide array of things could be considered as 'innovation', and therefore with the increasing expectation for companies to innovate, surveys tend to overestimate the number of actual innovations conducted (Libbey 1994, Borins 2000b, Bloch and Bugge 2013, Unger 2005).

The World Intellectual Property Organization provides data on patents (WIPO 2004), while companies measure their 'research and experimental development' activities based on the Frascati Manual (OECD 2002). However, these indicators have also been criticized. Some have argued that patents are more reflective of invention rather than innovation. Meanwhile, R&D data are often difficult to disaggregate and not very helpful to identify innovations (which are more

associated with 'development' rather than 'research'). Furthermore, innovation also includes other activities not accounted for in R&D data, such as prototyping, tooling, and marketing (Unger 2005, Swann 2009).

In the public sector, innovation has been studied since as early as the 1960s (Mohr 1969, Walker 1969, Gray and Walker 1973). Earlier research mainly used case methods and criticized the risk-averse culture in the public sector (Arundel and Huber 2013). Since the early 2000s, however, there has been more large-n research on the topic. Some of these took the sampling frame of past innovation award winners, such as those in the U.S. (Grady 1992, Borins 2001) and in the Commonwealth countries (Borins 2001). Extensive data of award winners and applicants in the U.S. over more than 20 years have allowed cross-section and time series analyses of various aspects of public innovation, including funding size and sources, accountability mechanisms, beneficiaries, internal and external challenges, and outcomes (Borins 2014).

Other scholars have used data from relatively recent innovation surveys in the UK (Walker 2006, Audit Commission 2007), Australia (Arundel and Huber 2013), the Nordic countries (Bloch and Bugge 2013, Bloch 2011), and others. Such studies have found local governments to be highly innovative. For example, 91% of the 350 Australian local governments reportedly conducted an innovation in the past two years, with 40% of those claimed to be 'first in Australia' (Arundel and Huber 2013). Meanwhile, the incidence of innovation in 2008-2009 in Nordic local governments was also very high, ranging from 66.9% in Sweden to 84.5% in Denmark (Bloch and Bugge 2013). These studies provided us with some characteristics of public innovation, such as source of idea, implementation strategy, and barriers to success. In Asia, quantitative studies of public innovation have also been conducted through

local government surveys, such as in the Philippines (Capuno 2011) and Thailand (Lorsuwannarat 2013).

However, there have been criticisms towards the use of data from both innovation awards and innovation surveys. Both were claimed to have self-selection bias: local governments that do not have successful innovations tend to refrain from submitting an application for the award (Libbey 1994, Borins 2000b) or from responding to the survey (Bloch and Bugge 2013, Unger 2005). Thus awards and surveys tend to give a more optimistic view on public innovation than it really is.

c. Unique Traits of Public Innovation

Innovation in the public sector is defined similarly as in the private sector. The ultimate goal of public innovation is arguably to achieve 'public value' rather than private profit, but two main characters - newness and implementation – remain key. A more thorough definition is as follows:

'Public sector innovation is about new ideas that work at creating public value. The ideas have to be at least in part new (rather than improvements); they have to be taken up (rather than just being good ideas); and they have to be useful'. Mulgan (2007, 6)

Traditionally associated with the domain of the private sector, innovation is increasingly being expected from public agencies. There are a number of arguments as to why the public sector is expected to innovate. The 'Innovation in American Government Awards,' was started in the 1980s by the Harvard Kennedy School and the Ford Foundation to shed positive light on the public sector amidst growing NPM-style criticism of government inefficiency and stagnation (Moore 2005). In the contemporary context, public innovation remains important to improve the public sector's image and legitimacy (Bloch et al. 2009, Vigoda-Gadot et al. 2008) and to

identify and provide services that are in-line with changing citizen's needs and expectations (Bason 2010, Commonwealth of Australia 2009, Albury 2011). From an economic point of view, public innovation is touted to generate cost savings in the context of financial crises and austerity. It has also been argued to result in more innovations in the private sector, and ultimately in better economic performance (Commonwealth of Australia 2009, Bloch et al. 2009).

Public innovation, however, is fraught with contradictions. On the one hand, some scholars argued that the public sector could never be as innovative as the private sector (for example, Potts 2009, Cole 1988, Stewart-Weeks and Kastle 2015). On the other hand, other scholars claimed that the public sector is actually more innovative than many people think (for example, Mulgan 2007, Bloch 2011). Meanwhile, those in the middle ground argue that there is no contradiction between public and private innovation. For example, Ostrom (1965) synthesized earlier and argued that public and private entrepreneurship are mutually dependent and co-evolve together.

Much of the debate on public innovation is associated with the notion of risk. Both the private and public sectors face risk, but there is a difference in the way the two view risk. For the private sector, risk is acknowledged as part of the day-to-day reality of doing business. And thus, as Bhatta (2003) explained, the private sector has factored in the cost of risk in their business plan. Failure(s) may be tolerated as long as risks were properly calculated, and the benefits of success (which may come after several failures), could offset the costs. The amount that the private sector invests in these 'experiments' varies. In the context of advanced industrial countries, 3-4% of a firm's turnover is generally used for Research and

Development (R&D) activities, while for firms in R&D-heavy sectors such as biotechnology, the figure is more likely to be 20-30% (Mulgan 2007).

For the public sector, the notion of risk is viewed in a more careful manner. As the government deals with critical public issues which sometimes involve matters of life and death, risk is typically unwelcomed. The government is often seen as a “stabilizing force” that is needed to balance a fast-changing world (Mulgan 2007, 15), and that being innovative in private sector-like ways “may compromise the state’s social responsibilities” (Pinto 1998). Allowing government officials to experiment with new programs requires high level of public trust. Thus the easiest way to deal with risks in the public sector is often to avoid them altogether.

Because governments are generally run on risk-aversion principles, attempts at innovation tend to be discouraged. The reason: consequences of failed innovations are detrimental to the public servant’s career, while the benefits of success are easily captured by elites (Bhatta 2003, Moore 2005). Furthermore, government failure is more prone to scrutiny by the public, the media, and legislative institutions, compared to private sector failure (Allison 2007).

Individuals within the public sector tend to fear the risk of conducting innovations. Ten years after the optimistic publication of *Creating Public Value* (Moore 1995), Moore (2005, 43-44) revised his earlier assumption that public managers have some authority to innovate. Instead, he clarified that:

“Most government managers... had very narrow tolerances in which to innovate... and they thought they needed some kind of authorization to gamble with taxpayer dollars, client welfare, and the public interest on new, untested ideas”. Moore (2005, 43-44)

The practice of public management under NPM principles, which places much emphasis of efficiency, is claimed to be associated with risk-aversion (Potts 2009). Efficiency and innovation are 'mutually inconsistent': The former involves preference for proven winners and intolerance for experimentation while innovation, on the other hand, requires risk-taking, experimentation, and a tolerance of failure which implies the presence of public trust (Potts 2009). These issues have been widely explored in the field of New Institutional Economics, especially transaction cost analysis. However, the dominant explanations of innovation have tended to sidestep transaction costs and focused primarily on leadership and society aspects.

2. Dominant Explanations: Leadership and Society

An exploration of the literature on private and public innovation, as well as on closely-related concepts such as development, progress, and policy change, identified two major groups of explanation. The first group is related to individual aspects, more specifically leadership and entrepreneurialism. The second group is related to structural aspects, more specifically the institutions or 'culture' present in an organization or society.

a. Leadership, Actors, Agents

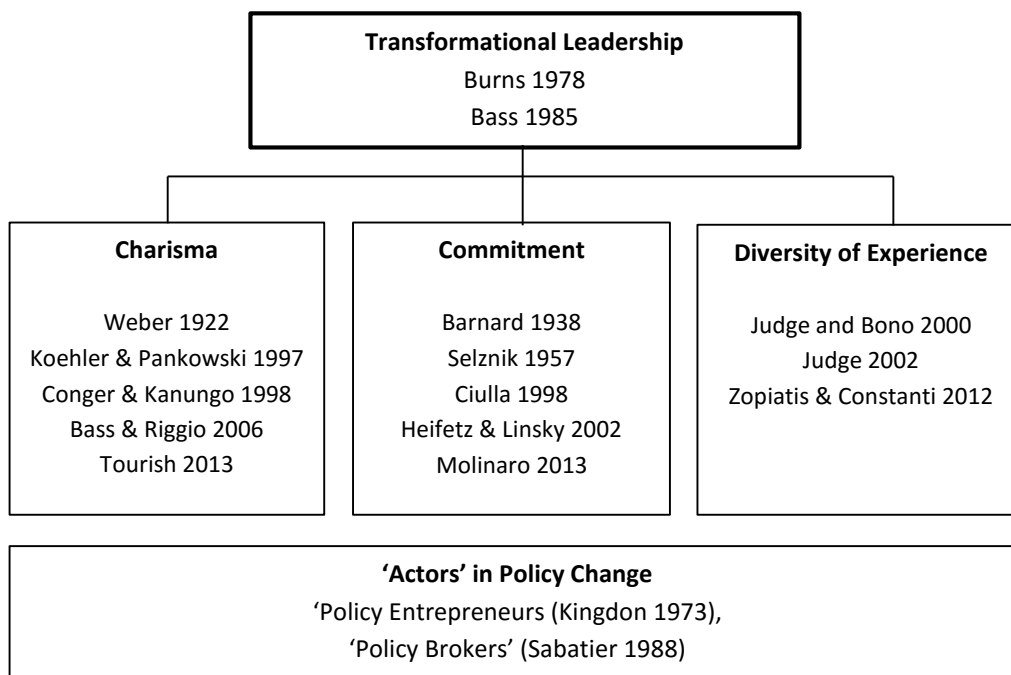
Innovation has been heavily linked to an individual's leadership character. Let's call this the 'agency' argument. In the private sector domain, the leadership styles of Steve Jobs and Bill Gates have been explored to explain the success of Apple and Microsoft. Similarly in the public sector, narratives about Franklin D. Roosevelt, Margaret Thatcher, and Deng Xiaoping are extensive in explaining how a country transformed itself or turned around from a crisis.

Arguments for the importance of leadership can be found in the literature related to public and business administration, as well as political studies. In the field of political science, Paige (1977), Blondel (1987), among others, provided some of the earlier groundwork to expand the literature on leadership at the national level, while Barber (1964), Wildavsky (1964) did so at the local level. Since then, the notion of “political leadership” has been widely expanded (Rhodes and Hart 2014, Kellerman 1986, Helms 2012, Berg and Rao 2005).

A public leader’s role in triggering innovation is often seen from a ‘public entrepreneurship’ point of view. Here, public leaders are seen as entrepreneurs (Doig and Hargrove 1990) who attempt to create ‘public value’ (Moore 1995) and are characterized by their alertness to opportunities, ability to make judgmental decisions, and drive for innovation (Klein et al. 2010). The importance of leadership in transforming or reforming the government has been written at the level of the U.S. federal government (Klitgaard 2005) as well as sub-national governments worldwide (Campbell and Fuhr 2004).

Prominently explored in the literature, a leader mobilizes followers to conduct things that collectively contribute to a common goal. Two types of leadership have been highlighted: ‘transactional’ and ‘transformational’ (Burns 1978). Transactional leadership focuses on administrative issues, such as maintaining established procedures and keeping staffs’ performance in check, often through short-term, ‘tit-for-tat’ exchanges. Transformational leadership, in contrast, emphasizes a leader’s ability to motivate and challenge staff to take initiative and achieve the organization’s goals (Bass 1990). Being ‘passionate’ (Albury 2011) and ‘enthusiastic’ (Marsden et al. 2011) were often highlighted among the characters of such leaders.

Figure 4: Map of the literature: Leadership factors related to innovativeness



The notion of transformational leadership has been widely explored (Gasper 1992, Bass and Riggio 2006). It has also been applied to the public sector (Koehler and Pankowski 1997), especially in relation to public service motivation (Paarlberg and Lavigna 2010). Similar notions to transformational leadership can be found in arguments such as 'adaptive leadership' (Heifetz 1994), 'strength-based leadership' (Rath and Conchie 2008), and to a certain extent, 'soft power' (Nye 2008).

The wide range of literature presents at least three common personal characteristics that make someone a 'transformational' leader. These include *charisma*, or ability to motivate and mobilize others to achieve a common goal, *commitment*, or the will to do something even if it means tying one's own hands or being unpopular, and *diversity of experience* in sectors other than the local government which could provide one with inspiration to try new things. The notion of 'change leadership' explains how a leader facilitates the processes needed to enable innovation, primarily through commitment to risk-taking, ability to change

the organizational mindset, and development of team creativity (Kuczmarski 1996, Adair 2007).

Charisma

Although transformational leadership is primarily a practice, some authors (i.e., Bass 1990) have identified charisma as one of the traits that supports the practice of transformational leadership. Max Weber in 1922 wrote that the legitimacy of a leader originates from three sources: traditional authority, legal-rational authority, and charismatic authority (Weber and Gerth 1958). Traditional authority is justified through birth right (as in monarchies and traditional societies), while legal-rational authority is justified through legal appointment, election, administrative capacity, and other rational arguments. Charismatic authority, however, refers to a personal trait that inspires, builds motivation, and provides guidance for followers to reach a common goal, regardless of a person's birth rights or formal position in the organization.

However, transformational leadership has also been critiqued for its 'dark sides' (Conger and Kanungo 1998, Tourish 2013). These include use of charisma to manipulate and deceive, eventually leading to authoritarianism. Responding to these challenges, Bass and Steidlmeier (1999) argued that 'to be truly transformational, leadership must be grounded in moral foundations'.

Commitment

A leader's commitment is based on his or her personal will to create positive change, with the consequences that come with making such commitment credible. This may mean working harder and having more determination (Collins 2001, Molinaro 2013), taking risks that might lead to creating enemies or being unpopular (Heifetz and Linsky 2002), and prioritizing collective success above personal gains

(Sinek 2014). Beyond dealing with administrative aspects of management, a leader promotes and protects organizational values in a more advanced role of 'institutional leadership' (Selznik 1984), where commitment is demanded not just personally, but also towards collective values and programs.

Commitment is also closely related to moral legitimacy (Barnard 1982, Steinbauer et al. 2014) and ethics (Brown and Treviño 2006, Ciulla 1998). These stem from having characters such as credibility (Gabris, Golembiewski, and Ihrke 2001), trustworthiness (Carnevale 1995), and accountability (Dive 2008). The above characters make a leader 'exemplary' to others (Cooper and Wright 1992) and justifies his or her instructions with moral grounds. Without moral foundation, charisma may be effectively used for deviant purposes.

Diversity of Experience

A common personality trait of transformational leaders and those who lead 'change' and innovation is creativity. Creativity, in turn, is associated with openness to experience, or willingness and curiosity to try different things (Zopiatis and Constanti 2012, Judge and Bono 2000, Lee 2013).

In the American public sector, Treverton (2005, 106) laments the silos that separate public and private leadership and the fact that in the public sector, there is 'almost no lateral entry from other sectors except at the very top.' Taking cue from the military model, where staffs undergo frequent job rotations that enrich their experience, the National Commission on the Public Service (2005) suggested that federal employees be given subsidized opportunities to have some working experience outside of the government. This is hoped to provide a diversity of perspectives and openness to new ideas.

Others have argued that public innovation is more likely to occur in 'common zones' where political leaders meet other leaders from the bureaucracy, the business sector, and the community (Hambleton and Howard 2013). The extent to which leaders are facilitative in providing or encouraging 'spaces' for different minds and viewpoints to meet are also important in encouraging innovation (Mulgan 2007).

Policy Change and Actors

The public policy literature has shown interest on the role of actors in inducing policy change and innovation. Such interest, however, tends to be placed on individuals with entrepreneurial characteristics rather than formal leaders per se. Kingdon (1984) in his Multiple Streams (MS) framework brought some attention to the notion of 'policy entrepreneurs' and identified these as people who push for policy change by coupling problems, policies, and politics – often in short 'windows of opportunity'. The concept of policy entrepreneurs has been further explored in various contexts (Palmer 2015, Roberts and King 1991).

The MS framework explained some characteristics of policy entrepreneurs: They are driven primarily by personal gains, have enough knowledge to present and argue for their 'pet' policy solutions, enough power to influence the formal decision makers, and enough insight to know when possible 'policy windows' might open up. These entrepreneurs could be from within the government (i.e., elected leaders, civil servants, legislative members) or outside the government (i.e., interest groups, NGOs, academics, and the media).

Subsequently, the Advocacy Coalition Framework (ACF) provided a more thorough explanation of policy change and introduced the notion of 'policy brokers' (Sabatier 1988, Sabatier and Jenkins-Smith 1993). The latter mediate agreements

between different coalitions within a policy subsystem. Like the policy entrepreneur, the policy broker may also come from within or outside of the government. However, unlike the policy entrepreneur, who is largely seen as self-serving, policy brokers are argued to be motivated by a policy belief.

The achievements of policy brokers are not generally attributed to chance, but to effort. Rather than take advantage of chaotic focusing events, they attempt to mediate conflict and find a middle ground between competing coalitions. Their primary motive is to advance their policy beliefs. The concept of the policy broker, too, has been further explored in different subsystem contexts (Kingiri 2014, Diaz-Kope, Lombard, and Miller-Stevens 2013, Sabatier and Weible 2007).

b. Society, Institutions, Structure

Another potent explanation for innovation, or the progress of a nation or society, is the deep-rooted institutions that exist therein. Let's call this the 'structure' argument. Institutions are the formal or informal, self-inflicted or externally-enforced constraints that bind a person's actions, be it individually or collectively (North 1991). As 'rules of the game', institutions take a wide range of forms, including written laws and regulations, norms prescribing acceptable or unacceptable behavior, personal and collective values about what are desirable or undesirable, and deeply-held beliefs about what is right or wrong. Instead of referring to these as the 'deep-rooted institutions of a society', the term 'society' is used as shorthand. This shifts attention from 'leadership' to the role of 'followership' in determining an organization or a society's success (Kellerman 2008).

Institutions exist at multiple levels, where rules at the more micro level are "embedded" within rules at the more macro level (Granovetter 1985). Kiser and

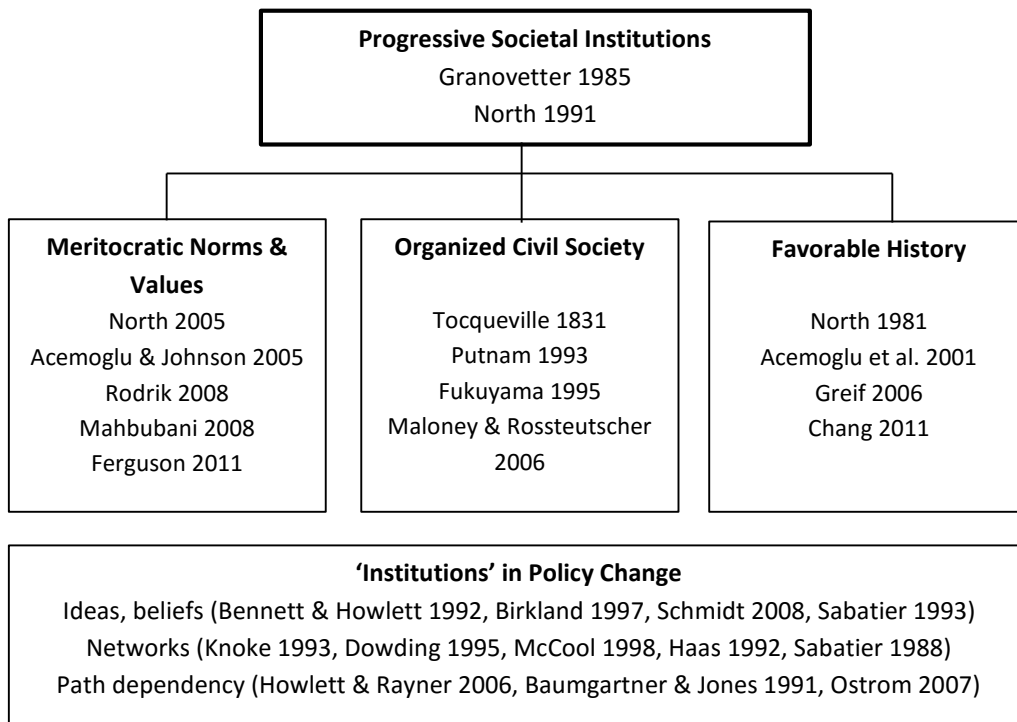
Ostrom (1982) identified three levels of institutions: operational, collective-choice, and constitutional-choice. At the operational level, institutions take the form of practical decisions about programs, projects, and activities. At the collective-choice level, institutions take the form of policies, laws, and regulations that govern which programs and projects will be implemented or prioritized. At the constitutional-choice level, institutions take the form of laws about law-making, which prescribes the processes and circumstances under which a law or policy could be changed. Williamson (2000) identified a fourth level of institutions which are even more macro than the constitutional-choice; these include informal institutions such as traditions, norms, religions, and ideologies which are very difficult to change (they last for centuries, and shape the path of subsequent development once adopted).

Increasing interest in New Institutional Economics has prompted international development organizations to encourage the development of 'good institutions' conducive for development and growth (World Bank 2002), such as the International Monetary Fund's Structural Adjustment Programmes. These, however, have been criticized for their lack of attention towards the local-specific, informal institutions, such as the presence of ethnic fractions and lack of democratic institutions. This highlighted earlier arguments about the difficulty of changing formal institutions without considering how norms and values are changed (Chang 2007, Rodrik 2008, Shirley 2008).

The range of literature on society presents three common institutional characteristics that make a society more likely to change and adapt to new conditions (let's call this a 'progressive society'). These include (1) *meritocratic norms and values* which consider honest hard work (as opposed to rent-seeking) as desirable behavior which will be paid off, (2) *organized civil society groups* within

various segments of the society to better achieve collective goals, and (3) *favorable history*, or the extent to which such norms and organizations have been present in the city's recent and distant paths. These are closely related to the notions of 'sociological institutionalism' and 'historical institutionalism' (Hall and Taylor 1996).

Figure 5: Map of the literature: Society factors related to innovativeness



Meritocratic Norms and Values

Institutional economists have argued that economic growth is associated with the ability to change and adopt innovations, which in turn is associated with norms and values that encourage trust and trustworthiness (Keefer and Knack 2005), and protect property rights and enforce contracts (Acemoglu and Johnson 2005). Other values such as meritocracy (Mahbubani 2008) and Weber's Protestant work ethic (Ferguson 2011, Weber, Parsons, and Giddens 2005) were also used to explain why Western societies developed and innovated much faster than others.

Changes in values and beliefs, especially perception of the consequences of one's actions, were considered key to explaining changes in the economy (North 2005).

A number of scholars have argued that values which are commonly thought to be 'given' from a Western point of view, such as rationality, efficiency, and democracy, could not be taken for granted (Dollar and Svensson 2000). Non-Western values exist throughout the world (Wiarda 1983), such as collectivism in Southern Africa (Müller, Mekgwe, and Mhloyi 2013), religiosity in Southeast Asia (Clammer 1996), as well as Confucianism and the belief in strong states in East Asia, caste in the Indian subcontinent, and the notion of 'East versus West' in Islamic societies (Wiarda and Boilard 1999).

However, norms and values can change over time. The fast rise of some Asian countries has been attributed to their ability to adopt values like meritocracy (Mahbubani 2008, Ferguson 2011). Nonetheless, the processes by which norms and values change – thus the process by which societies and economies fundamentally transform itself – remain ill-understood (North 1981).

In the innovation literature, there are plenty of references to the role of an 'organizational culture' in promoting or hindering innovation (Luke, Verreynne, and Kearins 2010, Osborne and Brown 2005). For example, overly extensive use of hierarchy and heuristics ('rules of thumb') in an organization prevents innovation, which thrive instead on non-hierarchical structure, openness, and fact-based communication (Feser 2012). Furthermore, organizational routines that encourage curiosity, experimentation, and risk-taking, and - to a certain extent - tolerates failure and the bending of rules (Albury 2005, 2011, Bessant 2005, Potts 2009, Moore 2005) is claimed to be more conducive for innovation.

Organized Civil Society

The ways in which members of the society are organized and associated are argued to be important in sustaining or changing institutions. Associations increase trust among members, which ultimately facilitate them in achieving collective goals and introducing change and innovations (Keefer and Knack 2005). Tocqueville (1831) attributed the success of democracy in America to a number of factors, especially the habit of creating associations to achieve collective goals. This was enabled by the widespread belief in liberty of association for various purposes, including civil (commerce, religious, leisure, etc.) and political ones. Freedom of association works hand-in-hand with freedom of the press, where Tocqueville observed that ‘newspapers make associations, and associations make newspapers’.

Public associations remain important until today, with scholars associating government effectiveness in a democracy with the presence of strong civic engagement. In their study of variations in Italy’s regional governments, Putnam (1993) found that regions where civil associations flourish tend to have higher trust among individuals and show better performance in public services, even after keeping rules constant. Civil associations (networks) coupled with trust and trustworthiness (norm) form the basis of social capital (Keefer and Knack 2005, Maloney and Rossteutscher 2007, van Houwelingen 2012).

However, there are a number of ways in which associations could hamper development. Inclusive or ‘bridging’ social capital, where trust has a ‘wide radius’ and extends beyond narrow characteristics of members, is beneficial for progress, change, and innovation. However, exclusive or ‘bonding’ social capital, which binds membership largely on exclusive characteristics like ethnicity and religion, is not (Fukuyama 1995). In many societies, associations are often formed in exclusive

manner for perverse purposes. For example, in Metro Manila, well-connected elitist social groups prevent meaningful role of civil society in development (Shatkin 2000), and an alliance of corrupt bureaucrats, party leaders, business interests, thugs, and criminals enforce a system of “bossism” in many places in Southeast Asia (Sidel 1999, 2004).

Favorable History

The notion that informal institutions persist over long periods has been established. For example, the West’s rapid economic development was seen as result of centuries-long accumulation of changes in their deep-rooted institutions, including values and beliefs about property rights, meritocracy, and institutions that support contractual exchanges (North 1981, Greif 2006). Similarly, variations in the development level of Asian, African, and South American countries were explained through the different mechanisms in which colonialism took place hundreds of years ago (Acemoglu, Johnson, and Robinson 2001, Rodrik, Subramanian, and Trebbi 2004, Lange 2009). In Southeast Asia, as well as in other developing countries, many elite or royal family networks originating from the pre-colonial era have persisted until today, sustained by the colonialists through local administrative and rent-seeking roles (Day 2003, Nordholt 2004).

Increasing attention to the importance of history in explaining progress and development is reflected in calls to infuse more time-series and historical reasoning (Chang 2011). The notion of ‘path-dependency’ argues that changes are often incremental and follow a slow, evolutionary path dependent on institutions that have been previously planted in place. However, at certain times, a major stochastic change could occur and plant a different kind of institution, allowing a radically different path to present itself (North 1990). This implies that change and innovation

is more likely to be dependent on the extent to which meritocratic norms and values and organized civil society have been present throughout a society's history.

Policy Change and Institutions

In the public policy literature, changes in ideas and beliefs have been discussed as one of the explanations for policy change (Yee 1996). Ideas and beliefs change through processes of learning (Bennett and Howlett 1992, Birkland 1997), such as 'political learning' (Hecl 1974), 'policy learning' (Sabatier 1988), 'social learning' (Hall 1993) and 'lesson drawing' (Rose 1991). These typically take place during the policy evaluations stage, but not exclusively so. Discourse, or the way information and knowledge are communicated, plays an important role in these learning processes (Schmidt 2011, Schmidt 2008).

The process of altering one's ideas may happen incrementally, in different 'orders of change'. Such orders range from minor changes in budgets, to more substantial changes in policy instruments, to radical changes in policy goals and paradigms (Hall 1993). Major policy change typically occurs over relatively long periods of time; some have argued that it takes at least 10 years for the lessons of policy learning to accumulate and inflict change in one's policy beliefs (Sabatier and Jenkins-Smith 1993).

The policy literature identifies associations as networks, or the actors and the relationships that exist between them (Knoke 1993, Dowding 1995). Networks take diverse forms. Some are established based on certain issues and sectors, as in the notions of 'issue network' and 'policy network' (Hecl 1978, McCool 1998). The purpose and character of these networks can range from learning, as in the notions of 'policy community' and 'epistemic community' (Haas 1992, Dunlop 2013, Miller and Demir 2007) to advocacy, as in 'advocacy coalitions' (Sabatier 1988), to

monopoly of policy making processes, as in 'iron triangles' (Cater 1964). Policy change is argued to be related to the dynamics taking place in policy networks (Compston 2009). For example, Villadsen (2011) attributed policy isomorphism among Danish municipalities to the social network structure of local political executives.

The policy literature also acknowledges path dependency of policy beliefs, which may change through stochastic or evolutionary ways (Howlett and Rayner 2006). For example, conservative policy change is a major feature of the Punctuated Equilibrium theory (Baumgartner and Jones 1991), but the theory also acknowledges that sometimes policies change substantially. These two types of changes are identified as 'self-reinforcing sequence' and 'reactive sequence' (Mahoney 2000).

The Institutional Analysis and Development (IAD) framework (Ostrom 2007, Kiser and Ostrom 1982) dissects the workings of institutions to explain how policies are decided and adopted. The IAD framework uses an input – process – output – feedback cycle. First, the *inputs* entail three contextual factors that influence policy-making, namely attributes of the good or service in question, the rules that are used by the community, and the values and norms that apply therein. Second, the *process* relates to how actors strategically interact with each other within an 'action situation'. This is a 'social space where individuals interact, exchange goods and services, solve problems, dominate one another, or fight' (Ostrom 2011). Third, the *outputs* are collective decisions from the action situation which are implemented, enforced, and evaluated against a set of criteria determined by the community's norms and values. Such outputs result in longer-term outcomes that over time (re)shape the contextual factors.

c. Assessment

The leadership literature identified various characteristics of a leader, namely charisma, commitment, and diversity of experience, which were argued to enable more innovations. But it does not offer a framework to explain how a leader with such characteristics may do so. Also, the leadership argument for innovation or change seems to explain the case of some local governments which were innovative under the leadership of one mayor, while not so innovative under the leadership of the subsequent mayor. However, it does not explain why some cities remain consistently innovative over many years, after being led by different successive mayors.

The society literature offers several deep-rooted institutional aspects of the society that are more conducive to innovation, namely meritocratic norms, progressive local organizations, and favorable history. However, a theory or framework that links these aspects with innovation is lacking. The society argument seems to explain the presence of some innovative city governments which have a progressive society with meritocratic values, high trust, and vibrant associations. However, it does not explain the phenomenon of some cities with unfavorable structural variables that have transformed for the better, despite the odds.

In the public policy literature, policy change frameworks offer meso-level explanations about the actors involved in policy dynamics (i.e. 'policy entrepreneurs', 'policy brokers') and the institutional environment where the actor is contextualized (i.e., 'policy venues', 'action situations'). However, they do not offer a theory about which circumstances make policy change more likely. The processes related to key events that lead to policy change, such as coupling of the three streams (Kingdon 1984), or the brokerage of opposing advocacy coalitions

(Sabatier and Weible 2007), or when a negative 'policy image' turns positive (Baumgartner and Jones 1991), are left largely unexplained. In the MS framework, Kingdon (1984) attributed the coupling of streams to serendipity.

[Policy entrepreneurs] wait in and around government with their solutions at hand, waiting for problems to float by to which they can attach their solutions, waiting for a development in the political stream they can use to their advantage. (Kingdon 1984, 165-6)

The IAD framework is an exception as it utilizes game-theoretic reasoning to provide a framework that explains how actors in an 'action situation' may come to agree on certain policy decisions. However, game theory focuses on whether cooperation between two or more players will take place, not whether policy change (or adoption of new policies) will happen (Ostrom 1994, Holzinger 2003). Furthermore, game theory could be complex and depends on a number of factors, such as how many times the game is conducted, whether the games are sequential or simultaneous, whether access to full information is available, etc.

An opportunity to explain public innovations in a more parsimonious way exists in another framework which shares the same theoretical foundation as Ostrom's IAD. The transaction cost theory was devised to explain why firms exist (Coase 1937) and why different governance structures emerge (Williamson 1996, 1979). But it has also been further developed and utilized in various ways, including to explain why certain cities have been more innovative than others in the private sector context (Piore and Sabel 1984, Storper 1993, Saxenian 1996). We now turn to transaction cost as a proposed explanation for public innovation.

3. Proposed Explanation: Transaction Costs

Since it takes more than one person to innovate, innovation is fraught with transactions. The initiator of an innovation needs to convince a group of people to approve a new idea and mobilize another group of people to implement it. In a sense, she needs to conduct agreements or “transactions”. Due to these considerations, theories of transaction cost form an appropriate foundation for public innovation studies. Transaction cost analysis can be considered as part of the ‘rational institutionalism’ paradigm (Hall and Taylor 1996)

The notion of transaction costs (TC) was developed by multiple scholars, predominantly Oliver Williamson (1975, 1979, 1985, 1996), but also Alchian and Demsetz (1972), Klein, Crawford, and Alchian (1978), Buchanan (1975), Grossman (1986), Dixit (1996) and others based on earlier developments in the fields of economics (i.e., by John R. Commons, Ronald Coase, Friedrich Hayek), organization theory (i.e., by Chester Barnard, Herbert Simon), and law (i.e. by Karl Llewellyn).

TC can be described as ‘the costs of running the economic system’ (Arrow 1969) that arise when individuals exchange ownership rights and enforce it’ (Eggertsson 1990). TCs do not include the cost of making a product or providing a service in-house; these are called ‘production costs’. Before the notion of TC was raised, buying and selling a product or service in the open market was considered costless and frictionless. The presence of TC was initially highlighted by Coase (1937) and proven later by Coase (1960) and Arrow (1969), among others, through the presence of negative externalities (which would have been completely internalized if TCs do not exist).

Economic activities take different forms based on the goal of minimizing TC (Williamson 2010). Where TCs are low, economic actors tend to use the market system, meaning they would buy products and services (conducting exchanges with other parties) as opposed to making them. On the other hand, where TCs are high, economic actors would tend to use the 'firm' (a vertical organization) to make products and services as opposed to buying them on the market. This is the concept of 'economizing' on transaction costs (Williamson 1991) which shall be applied in this research to the process of public innovation.

Transaction cost analysis has been used primarily in the private sector to help firms decide whether or not to outsource jobs, as well as how much and where to outsource. The analysis has been used in the public sector context (for example, Brown and Potoski 2003, Huet and Saussier 2003, Kwon, Lee, and Feiock 2010, Obermann 2007), but it has not been applied to the topic of public innovation.

Transaction costs could be valued in monetary terms (calculated from man-hours spent, cost of buying insurance, etc.), but in the public sector they come into consciousness primarily in the form of administrative hassles and political risks. Due to the various characters of transaction and types of transaction costs, conducting public innovations could be a 'hassle' or highly 'risky' to conduct.

a. Characteristics of Transaction

There are three characters of transaction which can make it costly: asset specificity, uncertainty, and frequency (Williamson 1979). First, *asset specificity* refers to the degree in which transaction-specific investments are needed. A transaction typically leads a firm to invest in certain equipment, labor, land, etc. The more specific the investment, the more "locked-in" is that investment to the transaction, which means the more costly it is for the firm to engage in that

contract. In the context of public innovations, the more an innovative activity requires specific investments that could not be used for other activities, the more costly is the transaction to enable such innovation.

Second, *uncertainty* stems from the presence of information asymmetry and the condition of bounded rationality (cognitive limitations of humans). It is the primary reason why contracts are inherently incomplete; because it would be impossible to write a clause ex-ante to cover all possible calamities or mishaps that could take place ex-post (Williamson 1981). Due to this element of uncertainty, transactions are by definition risky. This risk could be reduced with the presence of reliable and efficient arbitration systems. The more uncertainty is created by the transaction, the more costly is said transaction. In public innovations, the more uncertain a new project is expected to succeed, the more costly is the transaction needed to mobilize political and administrative support for such project.

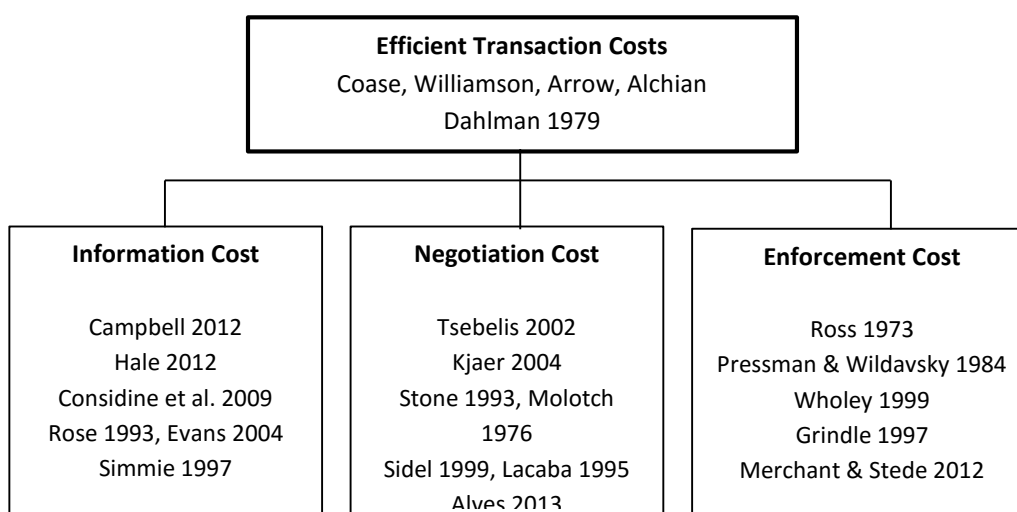
Third, *frequency* refers to the number of times such transaction recurs. The more often it will be repeated, the higher the transaction costs. Therefore, products or services which need to be procured on an ongoing basis tend to be procured in-house. This increases the production cost of the firm, but reduces the transaction cost that it would have to pay if they were to buy the product from a third party repeatedly. In the public sector, new projects which require multiple investments (or multiple rounds of funding cycles or approval) before it could achieve success tend to be more difficult to support.

While the characters of transaction help to gauge the 'costliness' of attempting to conduct particular types of innovations, they do not explain 'innovativeness'. To better understand this, we turn to explore the different types of transaction costs.

b. Types of Transaction Cost

Transaction costs include: (1) search and information costs, (2) bargaining or negotiation costs, and (3) policing and enforcement costs (Dahlman 1979). Both information costs and negotiating costs take place before the contract (ex-ante), while policing or monitoring, and enforcement or implementation costs take place after the contract (ex-post). This thesis proposes that the more efficient these transactions are for a city leader, the more likely that innovations would be adopted.

Figure 6: Map of the literature: Transaction cost factors related to innovativeness



Information costs

Information costs in the classic, private sector context refer to the costs of finding out what to buy, who to buy from, how to buy it, and at what price. These stem from the presence of information asymmetries (where not everyone has the same access to information), as well as bounded rationality (where some information is simply too complex or too much for humans to process and understand).

In the context of public innovation, information costs refer to the effort needed by the public entrepreneur to find out about policies, programs, and

projects which have been successfully implemented in other places, the process by which they were conducted, and the extent to which they are relevant for her city. It is related to the notions of policy learning (Rose 1991), policy transfer (Evans 2004) policy diffusion (Gray and Walker 1973), and inter-city referencing (Phelps et al. 2014). Successful cities were argued to have ‘a pattern of deliberate and systematic acquisition of knowledge’ that benefits from good practices happening throughout the world (Campbell 2012). Some of the ways in which such information, knowledge, or ‘lessons’ can be accessed by the public innovator: through access to information and communication technology (ICT), referrals from personal and professional networks, and visits or travels.

ICT and media outlets provide a wide array of information and allow future public innovators to find references or solutions to their problems (Bekkers, Duivenboden, and Thaens 2006, Hale and Project 2011). News and feature articles from mainstream media may profile a successful program from a particular city. Similarly, ‘best practice’ compilations assembled by national government organizations, donor agencies, or academic institutions may also provide inspiration and trigger interest to learn further. The spread of successful innovations also often depends on the publicizing of successful pilots (Mulgan 2007).

ICT, however, could overload policy makers with information. Therefore there is value in having trusted and knowledgeable networks that can curate such information (Marsden et al. 2011, Considine, Lewis, and Alexander 2009, Considine and Lewis 2007). This network may be vertical, horizontal, or local. A vertical network involves officials from various hierarchies: cities, provinces, the central government. A horizontal network involves peers from other cities, such as city government associations at the national and international level (Campbell 2012). For

innovative ideas to flourish, city officials were suggested to expand their network beyond their immediate locality and interact with officials from other cities and regions (Newman, Raine, and Skelcher 2001). A local network involves local actors who are based in a particular city or region, such as the city government, businesses, and civil society groups (Compston 2009, Simmie 1997, Benz and Fürst 2002).

Learning, however, is most likely to be impactful when done by directly interacting with the 'teacher'. Travels to other cities to observe good programs in action provide inspiration and reduce uncertainties (Rose 1993). They also facilitate the transfer of tacit knowledge that is not generally found in reports or 'best practice' compilations (Dolowitz 2009). These travels usually take place in professional settings, such as during formal missions or conferences (Bulmer and Padgett 2005), but could similarly be effective when conducted on personal trips (Marsden et al. 2011). Studies have pointed out that policy transfer is more likely among places which are geographically near because there is more opportunity for direct visits (Kern, Koll, and Schophaus 2007)

Negotiation costs

Negotiation costs are the costs of coming to an agreement for the different parties involved in the contract. These include the time and resources spent on negotiating, convincing, and agreeing to the content and conditions of the contract. Issues related to trust, commitment, credibility and reputation – as have been explored in the discussion on institutions, play an important role. Part of risk management is ensuring that public expectations are managed, i.e. by informing and involving stakeholders (Mulgan 2007).

In the context of public innovation, negotiation costs involve efforts needed to convince people to approve and/or support the use of public resources to

implement an innovative idea. These are closely bound to the notion of ‘governance’ (Kjær 2004) and how the city’s leaders relate to their legislative counterparts, their political rivals, and other stakeholders of the city, including business interests and community groups (Hambleton 2011). Relationship between the city’s leaders and their administrative superiors (province or state government) are also important and may present ‘bounds’ or ‘limits’ to a city’s authority (Peterson 1981, Frug and Barron 2008). However, this phenomenon is arguably less prominent in the context of devolution, where Indonesia’s cities as well as the Philippines’ ‘highly urbanized’ and ‘independent component’ cities are practically autonomous local political entities.

In a democratic context, city leaders and heads of departments (the executive) need to convince their counterparts at the city council (the legislative) to approve the city’s yearly programs and budget. In this regard, city councilors could be considered as ‘veto players’ (Tsebelis 2002). Formal politics at the city level possibly contributes to public innovativeness, where the mayor may have larger support to conduct innovations if she shares a common political affiliation with the majority of city councilors. Thus the political composition of the city council may determine the level of legislative support for the mayor.

However, politics does not only take place in the formal, legislative setting. In American and British cities, Stone (1993), Molotch (1976), and DiGaetano and Klemanski (1993) have argued that urban development is often driven by a pro-growth network of business interests, land-owners, and local politicians (‘urban regime’ or ‘governing coalitions’). They may not have a formal role in the council’s voting process, but they have informal influence on the mayor, senior officials, and councilors. In the Philippines, such regime may manifest in the form of ‘bossism’, which includes a close-knit alliance of corrupt bureaucrats, politicians, illegal

businesses, and thugs (Sidel 1999, Lacaba 1995). Relationship with various city stakeholders is also important because user feedback is critical for ensuring the success of the innovation (Albury 2011). The notion of ‘co-creation’, where ‘producers’ (i.e., the city government) and ‘consumers’ (citizens) sit together to identify products and processes which are mutually beneficial, is argued to stimulate more innovation (Alves 2013, Bason 2010, Prahalad and Ramaswamy 2004). But for that, the capacity of society groups needs to be strengthened (Morse 2012).

City leaders sometimes may also face extreme rivalry from other local politicians who may affect the governing process. Competition is arguably conducive to innovation (for example, Lawless and Anderson 1996), but not if disruptive. This is often the case when the city’s growth is largely rooted in politics rather than economics (White 2009, Hardin and Bahuchet 2011). In some cases, political rivalry could extend beyond the election time into periods where governing and development should take priority. The mayor may also face problems in governing if the rival or the rival’s followers are present in the governing structure, such as in the city council or as the vice mayor.⁸

Enforcement costs

After the approval for the innovation has been secured, the public innovator needs to monitor the performance of her staff to make sure that the innovation is conducted well. Enforcement is closely related to the literature on policy implementation (Sabatier and Mazmanian 1980, Pressman and Wildavsky 1984, Bardach 1977), and has been analyzed through the lens of the ‘principal-agent’ problem (Ross 1973, Jensen and Meckling 1976), where the city leader acts as

⁸ In the Philippines, mayors and vice mayors are elected separately, so it is quite likely that the two may come from different, or even opposing, political coalitions.

'principal' and the staff as 'agents'. Since the incentives of the agent may not always align with those of the principal, there is a need for the principal to monitor and enforce the work of the agent.

Public sector performance has been a major topic of discussion, especially since the rise of NPM principles in public administration (Wholey 1999, Williams 2009, Hatton and Schroeder 2007). The capability and commitment of civil servants, as well as quality of local institutions determine the performance of public agencies. Staffs' capacity is related to education level and work ethic or commitment. Bureaucratic capability refers to the quality of city-level governing institutions, such as regulations that help determine how the bureaucracy works. High performance of a bureaucracy is often related to the presence of meritocratic recruitment, which tend to signify individual quality of civil servants, more so than the presence of rewards such as competitive salary, promotions, and career stability (Rauch and Evans 2000). In China, stronger bureaucratic capacity was associated with more cooperative relationship between the state and society (Huang and Yang 2002).

Regardless of the existing capacity, city governments need to conduct capacity building for their staff on a regular basis (Grindle 1997). Civil servants need to deliver an innovative program successfully, and be equipped to deal with constantly changing situations. Capacity building could take place through formal trainings, but also through on-the-job trainings and modeling of good habits by leaders (West and Berman 2011) Various challenges of conducting local government capacity building have been documented (Ta'i 2000), but with consistency and commitment, coupled with the right incentives, it could result positively (Courtney, Deguit, and White 2002, Berman and Kim 2010).

Aside from ensuring and building staff capacity, the city government has been suggested to adopt performance requirements, including incentive systems which are appropriate for the public sector (Merchant and Van der Stede 2012, Burgess and Ratto 2003). Incentives and disincentives may take various forms. The more tangible ones include performance bonuses and pay-cuts, as well as promotions and possibly demotions. Less tangible ones include praises and reprimands by the superior. Incentives and rewards for innovative staffs have also been argued to improve performance (Gertler and Vermeersch 2012) and encourage more innovations (Newman, Raine, and Skelcher 2001).

c. Assessment

TC theories help us understand that firms and markets are not a given, but results of efforts to minimize transaction costs by adjusting the boundaries of the firm (Coase 1937, Williamson 1996). Where transaction costs are low, economic actors tend to use the market system ('buy'); where transaction costs are high, they use a vertically integrated organization ('make'). Sometimes we also see hybrid forms of organization, such as publicly-owned corporations or Public-Private Partnerships to respond to hybrid forms of transaction costs.

TC theories are mostly developed based on the private sector context, where it is assumed that economic activities will take place in any case, because economic actors need to generate profit. The main consideration is not whether to conduct the activity, but which form of organization (governance mechanism) is more appropriate to minimize transaction costs (Williamson and Masten 1999).

However, TCs are also present in public organizations, and the way TCs work in the public sector may be slightly different from the way they work in the private sector. In the public sector context, however, innovation is not a requirement, and

therefore may not always be conducted. High TC of a possible public innovation may deter public organizations from conducting said innovation altogether. An analysis of the transaction costs of governing the city (as explored in this thesis) may shed light on the likelihood of a city government to introduce innovations.

Some of the concepts included as part of TCs are not completely new to the field of public administration. For example, 'negotiation costs' in conducting public innovations (such as relationship with the city council and citizens groups) could have otherwise been referred to as 'good governance', while notions related to 'enforcement costs' (such as bureaucratic capability, capacity building, and use of incentives) are also known as 'public service capacity.' However, I believe seeing them as 'transaction costs' is in line with one of the intentions of this thesis: to bring a new perspective to the issue. More specifically, the transaction cost framework is adept in dissecting the topics of risk, negotiations, and principal-agent issues that pervades innovation.

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Chapter 3: Methodology

A scientific research design is composed of research question, theory, data, and use of data (King, Keohane, and Verba 1994). The research questions have been laid out in Chapter 1 (Introduction), while the theories were explored in Chapter 2 (Literature review). Data will be presented in Chapter 4 and Chapter 5 (the case reports) and analyzed in Chapter 6 (Comparisons and Analysis).

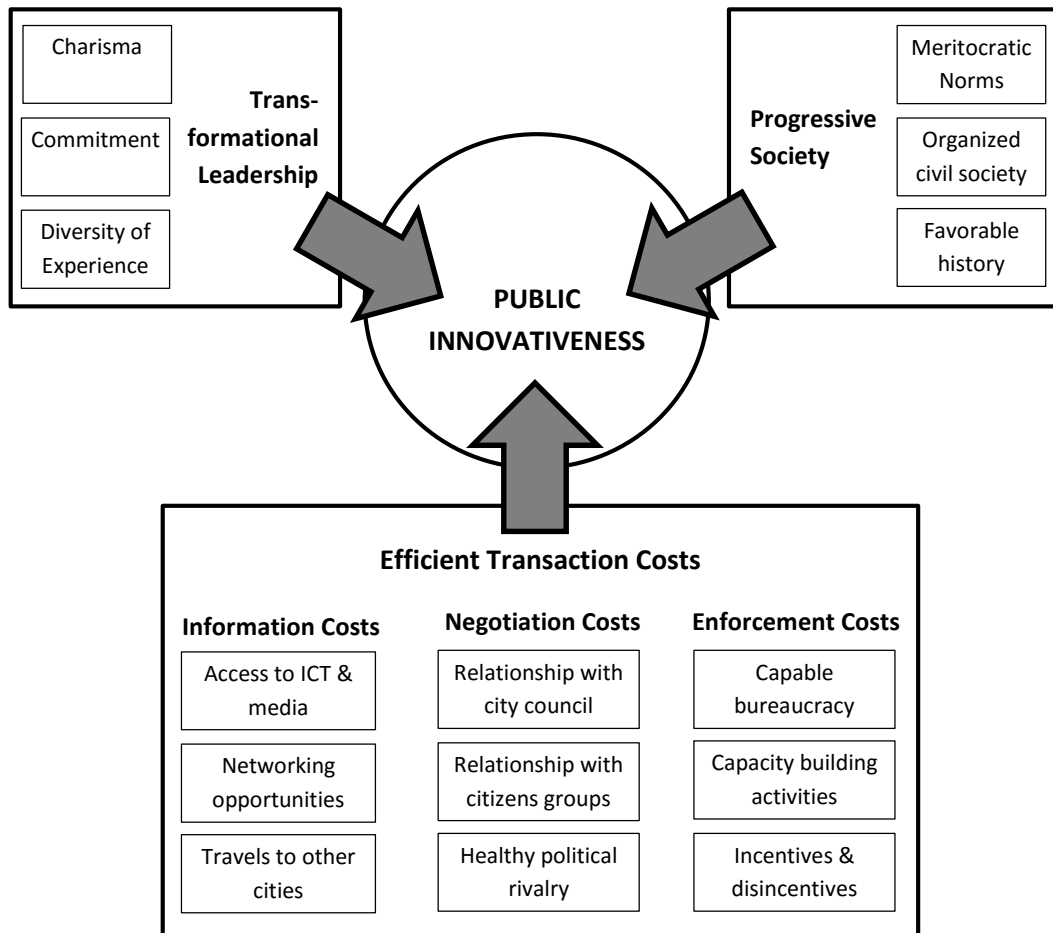
This chapter presents the methodology of this thesis, including analytical framework, research design, and issues related to research quality. The analytical framework is presented to operationalize the theories into more concrete definitions of the outcome (phenomenon being explained) and the explanatory factors explored in this research. The research design attempts to justify the data by explaining the process of selecting the cases to achieve research objectives while minimizing bias, and the procedures in which data were analyzed. Finally, the section on quality highlights various methodological limitations of this research and explains efforts that have been taken to improve reliability and validity.

1. Analytical Framework

This thesis adopts a 'retrospective research design' that attempts to explain a given outcome phenomenon (public innovativeness) which has already been established at the start of the study. The phenomenon is then explained by exploring a proposed theory (that lower transaction costs contribute to more innovations) in light of existing explanations (that leadership and societal characteristics may also play a role in determining innovativeness). The analytical

framework outlining the explanatory factors used in the LST Framework is provided in Figure 7.

Figure 7: Analytical Framework: Outcome and Explanatory Factors



a. Outcome: Public Innovativeness

The phenomenon or ‘outcome’ being explained in this research is *public innovativeness*. Here ‘innovativeness’ refers to the extent to which innovations or innovative programs have been introduced by a city government, but does not discuss each innovation in detail. Therefore, this research is about public innovativeness or ‘the state of being innovative in the public domain’, but not about public innovations.

Public innovativeness could be measured in multiple ways. As discussed in the literature review, use of survey data and innovation award data are similarly problematic. Surveys tend to be prone to self-selection and exaggeration in the reporting of 'innovations'. Meanwhile, awards are less inclusive and more prone to saturating 'innovation' with other constructs such as successful implementation and to how the program was 'presented' (often related to the charisma of the leader).

To deal with such measurement limitations, in this research public innovativeness is proposed to be measured by a *dichotomous* or *binary* construct (i.e. innovative, not innovative/typical) rather than a continuous construct (i.e. number of awards received, number of innovations reported) or an ordinal construct (i.e. highly innovative, rather innovative, less innovative). The binary construct concurs with the goal of this thesis: to understand why some city governments were more innovative than others. As such, the need was not to identify a range of cities based on different levels of innovativeness, but simply to identify cities which were 'innovative' and 'typical'.

A list of innovation award winners could help to identify 'innovative' city governments, despite the biases that come with the awarding process. Cities which have won multiple awards could be argued to be among the set of 'innovative cities', even if there were other cities which were more innovative. To ensure variation in innovativeness, there is a need to identify 'typical' city governments to be compared and contrasted with the 'innovative' cases. The research could therefore also be regarded as a 'case-control' study. Case selection process is explained in Section 2.A. (Research Design, Case Selection).

The unit of analysis in this research is the city government in whole, with focus on the mayor and her surrounding environment. Because the innovative cities

have won awards in multiple sectors, it is argued that there is something particular about the city government in whole that makes it worthy of being the unit of analysis. Had this research been about public innovativeness in certain sectors only (economic development, healthcare, education, etc.), it would make sense to choose a certain policy subsystem or relevant city departments as the unit of analysis.

b. Explanatory Factors: Leadership and Society

The literature review has identified two dominant explanations of innovation: leadership and society. A summary of factors related to leadership and society that will be explored in this research is summarized in Table 2.

Leadership

As reviewed in Chapter 2, three characters of leadership are particularly relevant to explain innovation or organizational change. City governments which have had leaders who were charismatic, committed, with diverse career experience were argued to be more likely to conduct public innovations.

Table 2: Defining Explanatory Factors: Leadership and Society

No.	Explanatory Factors	Definition
1	LEADERSHIP	
1a	Charisma	Ability to motivate and mobilize people; to make staff follow instructions
1b	Commitment	Personal will to achieve positive change, supported by credible moral legitimacy
1c	Diversity of Experience	The state of having exposure to and/or experience in careers beyond the local government
2	SOCIETY	
2a	Meritocratic Norms	Presence of norms that support meritocracy and fairness of opportunity (as opposed to 'rent-seeking')

No.	Explanatory Factors	Definition
2b	Organized Civil Society	Condition where citizens are organized and networked as civil society groups, and can articulate their collective demands
2c	Favourable History	The extent to which meritocratic norms and organized civil society has been present in the city's recent & distant history

Charisma refers to a leader's ability to motivate and mobilize the people around her to achieve certain goal. This includes the leader's capacity to make people listen to what she says, make staff follow instructions appropriately, and inspire people to adopt new habits. Such are the characters of 'charismatic authority' argued by Weber in 1922 that would make someone acknowledged as 'leader' rather than 'boss.' Whether a leader is charismatic and effective can be identified through interviews, surveys, media articles and news recordings, as well as from the leader's track record of achievements.

Commitment refers to a leader's personal and political will to achieve change despite various consequences. These include the tendency to work harder, take risks, and be unpopular politically. Commitment also refers to the leader's consistency in showing moral legitimacy, accountability, and credibility, as well as continuous support towards a program or idea. The institutional analysis literature has highlighted the importance of 'credible commitment' in achieving cooperation that would ultimately lead to successful innovations. These characters can be identified through interviews and surveys, as well as news articles which portray the mayor, both in positive and negative lights.

Diversity of experience is considered beneficial to build a leader's creativity and capacity to identify elements which could be recombined in different ways. Having lived in different places, participated in different organizations, and having

jobs or careers beyond the local public sector contribute to characters which would arguably enable leaders to be more open to change and new ideas. They can be identified by reviewing the curriculum vitae of the mayors, as well as from interviews with key respondents.

Society

The literature review also identified another explanation of innovativeness (or ability to change and develop over extended periods of time) in the deep-rooted institutions of the society. Societies which have had meritocratic norms and values, organized civil society, and have had them over extended periods in history were argued to be more likely to encourage or allow innovations to take place.

Norms and values that protect the people's rights, enforce contracts, and encourage meritocracy, trust and trustworthiness, have been said to be associated with sustained progress and economic growth. These shall be referred to as 'meritocratic norms', as shorthand. In the management literature, having a non-hierarchical organizational structure and values that encourage openness, curiosity, and risk-taking, while adopting fair, fact-based communication were also claimed to be more supportive of innovation. Such characters can be identified through interviews and surveys with leaders and members of the society.

The organization of citizens into civil society groups has also been attributed to the likelihood of having a more equal relationship between society and ruler. Associations and networks improve trust and trustworthiness, and build social capital among the association's members. Note that the social capital here refers to that which forms between citizens, not that which forms between the city leader and citizens groups (which is discussed under negotiation costs). This can be

identified through statistics on the number of local organizations and associations, as well as observations and casual conversations.

Favorable history refers to the extent to which meritocratic norms and progressive local organizations are embedded in the city's history, and lays a path that directs the city's trajectory. The longer such traits have been present in the city, the more likely the society will continue to remain meritocratic and progressive, and possibly encourage innovations. Such characters can be identified through history books, archives of past policies and programs, as well as news articles. It can also be uncovered through conversations with key informants who are familiar with the history of the city.

c. Explanatory Factors: Transaction Cost

Aside from leadership and society, the argument raised in this thesis is that transaction costs matter in encouraging or discouraging public innovations. Transaction costs can be disaggregated as information costs, negotiation costs, and enforcement costs. A summary of the factors related to transaction costs that are explored in this research is presented in Table 3.

Information costs

Information costs refer to the effort needed by the public entrepreneur to find out about policies, programs, and projects which have been successfully implemented in other places. The premise is that lesser or more efficient information costs are faced by city leaders who (1) have wider access to ICT and the media, (2) actively participate in various networking opportunities, (3) have traveled widely to other cities (or are familiar with other cities' innovative programs).

Table 3: Defining Explanatory Factors: Transaction Costs

No.	Explanatory Factors	Definition
3a	INFORMATION COSTS	
3a1	Access to ICT and media	The extent to which internet connection, media outlets, and relevant packaged information are easily accessible to city leaders
3a2	Networking opportunities	Opportunity for city leaders to network with the central government, mayors/leaders of other cities, and local interest groups
3a3	Travels to other cities	Opportunity for city leaders to directly visit other cities, to be familiar with innovative programs taking place elsewhere
3b	NEGOTIATION COSTS	
3b1	Relationship with city council	The extent to which executive leaders could build healthy political relationship with legislative members ('veto players')
3b2	Relationship with citizens groups	The extent to which city leaders engage & interact positively with various local interest groups
3b3	Healthy political rivalry	The extent to which the current, formal city leaders could exercise their authority to conduct activities without disruption from political rivals
3c	ENFORCEMENT COSTS	
3c1	Capable bureaucracy	The personal qualifications of civil servants and the administrative quality of city government organizations
3c2	Capacity building	The extent to which the city government could conduct capacity building for their staff
3c3	Incentives & disincentives	Ability of city government to implement an effective system that rewards performance and/or punishes non-performance

Access to ICT and the media refers to the extent to which internet connection, media outlets, and relevant packaged information (such as 'best practice' compilations, case studies) are available and accessible to city leaders and government staff. These could be gauged by the presence of affordable and reliable ICT infrastructure, be it in the city in general, or in the city government offices. The

number, size, and variety of local media companies also contribute to this aspect in ensuring a wider array of information sources.

Participation in networks refers to the opportunity for city leaders to liaise with various parties whose knowledge resources could be tapped. These could be assessed by the extent to which the city leaders (the mayor or heads of departments) actively participate in vertical networks with the central government, horizontal networks with other cities (nationally or internationally), and local networks with other city stakeholders. Such networks could be formal or informal.

Travels to other cities refer to the opportunity for city leaders, as well as the extent to which city leaders have traveled to visit other cities which may act as reference for innovative programs. Such travel is meant to signify familiarity with good programs that have been conducted elsewhere, and could take place in formally or informally, in official or personal settings. Travels which were done personally and before the leader started to hold office is related to the leader's personal background. However, official travels during the time as mayor or head of department is related to the opportunity that a leader is presented with.

Negotiation costs

Negotiation costs refer to the effort needed by city leaders to convince their political counterparts to approve use of public funds for an innovative program. The premise is that more efficient negotiation costs are faced by city leaders who (1) have good political relationship with the city council, (2) have positive relationship with citizens and local interest groups, and (3) face healthy political rivalry.

Relationship with the city council (legislative branch) refers to the extent to which the city's executive could build healthy political relationship with 'veto

players'. Such healthy relationship could be achieved through formal or informal political agreements or through a benign understanding where discussions in the city council take place for the greatest interest of the citizens. Such relationship can be gauged from the frequency in which new proposals from the executive were accepted by the legislative, the process in which they were accepted (if apply), and the content of discussion or debate that took place.

Relationship with citizens groups refers to the extent to which city leaders engage and interact positively with various civil society organizations and business associations in ways that build mutual trust. These can be observed, for example, from the frequency of meetings or interactions between city leaders and these various groups, whether such meetings take place regularly or only incidentally, where such meetings take place, and how they are conducted. It can also be observed from the quality of relationship between the mayor and citizens and level of public trust that the mayor holds.

Healthy political rivalry refers to the extent to which the current, formal city leaders could exercise their authority to conduct public projects or activities without facing disruptive challenges from their political rivals. This can be assessed from the manifestation of political rivalry: whether they caused disruption in the implementation of public activities or delivery of public services.

Enforcement costs

Enforcement costs refer to the effort needed by the public entrepreneur to implement an innovative program successfully. The premise is that lesser or more efficient enforcement costs are faced by city leaders who (1) have access to capable bureaucracy and civil servants, (2) have resources to conduct capacity building, and (3) can apply an effective incentive system to reward performance.

Capable bureaucracy refers partly to the personal qualifications of civil servants, including their education level, experience, trainings that they have had, discipline, creativity, and work motivation. It also refers to the administrative quality of city government organizations and institutions, including the extent to which local regulations enable the city government as a whole to deliver public services in effective and efficient manner, or to be creative and responsive towards new opportunities. The capability of a bureaucracy, either individually or as a system, can also be gauged by asking the perception of city leaders, and cross-check that with the perception of academicians and the business sector. This thesis, however, does not seek to measure the institutional aspects of bureaucratic capability, such as those related to rules and procedures of the city government.

Capacity building refers to the extent to which the city government conducts activities to build the capacity of their staff. These can be gauged from the frequency in which trainings were conducted, or staffs were sent for continuing education. They can also be reviewed from how the trainings were conducted, the topics which were covered, and the effectiveness or impact. These relate to the presence of resources to provide trainings or to send staff for continuing education.

Incentives systems refer to the presence of an effective formal mechanism that rewards civil servants for good performance (through both monetary and career-related appreciations) and dis-incentivize them for lack of performance. This can be evaluated from the extent to which such system is implemented consistently and is considered fair by civil servants, and its effectiveness in enticing government staff to improve their performance.

2. Research Design

The research was conducted based on the principles of ‘scientific inference’ (King, Keohane, and Verba 1994) using a combined method of analytic narratives (Bates 1998), multiple case study (Yin 2009) and Qualitative Comparative Analysis or QCA (Ragin 1987). The retrospective and ‘case-control comparison’ conducted in this research is influenced by the example provided by Ostrom (1990) in ‘*Governing the Commons*’. Underlying the methodology is a post-positivist epistemology, which is in line with the notion of ‘bounded-rationality’ embraced by New Institutional Economics (Ménard and Shirley 2008).

Due to limitations on the availability of measurable data on the outcome (public innovativeness) and explanatory factors (leadership, society, and transaction costs), the small-n, qualitative approach is utilized. The case study method is argued to be appropriate in answering ‘why’ and ‘how’ questions in small-n research, especially when the phenomenon being explained and the explanatory factors are intricately linked to each other and to their settings (Yin 2009). This method allows deeper exploration of a unit of analysis (a city government) in close relationship with its context (the city’s stakeholders and institutional setting). Such explorations are then described in Chapter 4 and Chapter 5.

Since the goal of the research is to identify possible factors as to why some city governments were more innovative than others, the ‘innovative’ cities shall be compared and contrasted with ‘typical’ ones. This calls for a comparative approach where key insights are gained from the cross-case analysis rather than from individual case reports. The Qualitative Comparative Analysis or QCA method allows the researcher to conclude whether an explanatory factor is ‘present’ or ‘absent’ in an observation by translating thick descriptions from case reports into binary ‘Yes’

and 'No' values. Patterns are then sought to see if any configuration of explanatory factors are associated with the outcome phenomenon (Ragin 1987).

Such approach conforms to the comparative analysis adopted in *Governing the Commons* (Ostrom 1990). In her attempt to identify what distinguishes institutionally robust common pool resources (CPRs) from failed and fragile ones, Ostrom conducted a five-step research process: (1) review existing research pertaining to the management of CPRs around the world, (2) identify research on 'robust' institutions in the form of long-enduring, self-governed CPRs, (3) summarize the 'design principles' which were similar among the long-enduring CPRs (similar to 'hypotheses'), (4) identify research on 'failed' and 'fragile' institutions in the form of CPRs which did not manage to deal, or are still dealing with their collective action problems, and (5) analyze of the extent to which the 'design principles' (derived from the 'robust' cases) apply or not apply to the 'failed' and 'fragile' cases (similar to 'hypothesis testing' in quantitative research). An overview of results of Ostrom's study is presented in Figure 8.

Ostrom did not necessarily conduct the original research on the 14 CPRs that she compared and contrasted; instead, she drew on 'a rich literature written by other scholars,' narrowed down the cases based on some criteria that fit her research objectives (i.e., small size, located in one country), and enacted reasoned judgment to summarize the 'design principles' which were present among the 'robust' cases. She then analyzed the extent to which 'failed' and 'fragile' cases showed presence ('Yes') or absence ('No') of such 'design principles'.

Figure 8: Research Reference from Governing the Commons

Site	Clear boundaries & memberships	Congruent rules	Collective-choice arenas	Monitoring	Graduated sanctions	Conflict-resolution mechanisms	Recognized rights to organize	Nested units	Institutional performance
Törfel, Switzerland	yes	yes	yes	yes	yes	yes	yes	NR ^a	robust
Japanese mountain villages	yes	yes	yes	yes	yes	yes	yes	NR	robust
Valencia, Murcia, & Orihuela, Spain	yes	yes	yes	yes	yes	yes	yes	yes	robust
Raymond, West, & Central basins (current)	yes	yes	yes	yes	yes	yes	yes	yes	robust
Alicante, Spain	yes	yes	yes	yes	yes	yes	yes ^b	yes	robust
Bacarra-Vintar, Philippines	yes	yes	yes	yes	yes	yes	yes	yes	robust
Alanya, Turkey	no	yes	weak	yes	yes	weak	weak	NR	fragile
Gal Oya, Sri Lanka	yes	yes	yes	yes	yes	weak	weak	yes	fragile
Port Lameron, Canada	yes	yes	weak	yes	yes	yes	no	no	fragile
Bay of Izmir & Bodrum, Turkey	no	no	no	no	no	no	weak	no	failure
Mawelle, Sri Lanka	no	yes	no	yes	yes	no	no	no	failure
Kirindi Oya, Sri Lanka	yes	no	no	no	no	no	no	no	failure
Raymond, West, & Central basins (earlier)	no	no	no	no	no	yes	yes	no	failure
Mojave groundwater basins	no	no	yes	no	no	yes	yes	no	failure

^aNR = not relevant.

^bWith two major exceptions, from 1739 to 1840 and 1930 to 1950.

^cMissing information.

Source: Ostrom 1990,

Table 5.2. Design Principles and Institutional Performances

This thesis, however, did not benefit from a similarly 'rich' literature on public innovation, leadership, society, and transaction costs in mid-sized cities of the Philippines and Indonesia. Therefore, fieldwork needed to be conducted in pre-selected 'innovative' and 'typical' cases to gather primary and secondary data. Since cross-case comparison will be the basis upon which the research question is answered, selection of both the 'innovative' and 'typical' cases was done with care.

a. Case Selection

The Philippines and Indonesia are selected as settings for the cities (cases) in this research due to their relatively recent political transformations: adoption of direct democracy and extensive decentralization in very short period. This transformation started with the Philippines' 'People Power Revolution' in 1986 and Indonesia's 'Reformasi' in 1998. The World Bank (2005) have referred to both countries' decentralization process as a 'big bang'. Along with this phenomenon came a drastic change in the way governance takes place at the local level. Mayors are increasingly taking the stage, and local democracy is gradually institutionalized, albeit with various extents and speeds. Along with decentralization, Indonesia and the Philippines have been facing issues to ensure that local governments deliver quality public services. Awards for local government performance and innovations have been popularly used for this purpose, arguably more so in the Philippines and Indonesia compared to other Asian countries. The question is: which city governments in Indonesia and the Philippines should be selected for this research?

Although perhaps not as 'ideal' as random selection that enables variation on the explanatory variable, a selection that enables variation on the dependent variable is acceptable as long as it is done with disregard to the explanatory variables (King, Keohane, and Verba 1994). Since this research is limited to a small

number of cases, the cases are selected *intentionally* to ensure variation in public innovativeness. This thesis utilized a combination of three case selection methods as identified by (Seawright and Gerring 2008): the ‘extreme’ cases represent cities with particularly high level of innovativeness, while the ‘typical’ cases represent the majority of cities. When one camp is compared and contrasted against the other, it adheres to a ‘most different’ method of case selection.

Admittedly, intentional selection is prone to biases. The most problematic of such biases is using knowledge of the explanatory factors to help guide case selection, such that the cases confirm the researcher’s desired conclusion. This was something that the researcher has avoided. Given the dearth of data on conditions pertaining to leadership, society, and transaction costs in the middle-sized cities of Indonesia and the Philippines, such attempt would not be possible without conducting prior research.

Another bias lies in the construct of ‘public innovativeness’. This research uses award winner data to identify cases that show presence of innovativeness. But such awards may be problematic. The fact that nominees are self-selected (not every city is assessed) lends to the bias that there could be some very innovative cities which have not applied for the award, and thus have not won any award. As described in Analytical Framework, this bias is dealt with by adopting a binary construct of ‘innovative’ and ‘non-innovative/typical’, and choosing cities which have won multiple awards as part of the ‘innovative’ set. Some of these biases will be discussed more in the Quality Considerations section.

Despite these challenges, preliminary discussions with award committees in both countries conclude that efforts have been taken to select the winners as objectively as possible (i.e., no political consideration was identified). Care has also

been done on the part of the researcher to select cases from the pool of winners and the pool of 'non-winners'. The following describes the process of selecting 'innovative' and 'typical' city governments from both the Philippines and Indonesia.

Philippine Cases

The Philippine government has been conducting a prestigious, national-level award to 'recognize innovation and excellence in local governance'. The *Galing Pook*⁹ (GP) Awards have been given since 1994 by the president to programs conducted by local government units or LGUs (provinces, cities, municipalities, or barangays). It started soon after the onset of decentralization as a joint-initiative of the Department of Interior and Local Government, with support from the Ford Foundation and other high profile national and local figures.

For a program to be eligible, it has to satisfy three criteria: (1) it is conducted by the public sector (although it may have started as an NGO initiative), (2) it has been operational for at least one year, and (3) it has proven positive results. With these criteria, LGUs submit an application form, which consists of a brief description followed by explanation on how the program responds to five judging criteria: (a) positive results and impact, (b) promotion of people's participation and empowerment, (c) innovativeness, and (d) efforts to ensure transferability and sustainability of the program. Although innovation is only one of the judging criteria, GP Foundation admittedly places a 'premium on innovation'.

The selection involves a rigorous process of trimming down the list, reviews by national and regional selection committees, on-site validation, and presentation. After an eligibility screening by the GP secretariat, the National Selection Committee identifies a list of promising programs to be further assessed by the Regional

⁹ *Galing pook* means great places. The award's website is at <http://www.galingpook.org/>

Selection Committees. After regional desk assessments, the latter return with a trimmed list of recommended programs. Based on this shorter list, several programs were further selected for on-site validation. Then the programs' proponents (mayors and managers) were invited to Manila to present and defend their respective programs. Finally, 10 programs were selected as "outstanding" (winners) and another six to 10 as "trailblazing" (runner-ups).

Every year, the GP Awards were given to 16-20 local programs, reaching a total of 328 awardees as of 2014.¹⁰ These 328 local programs were spread over multiple sectors, ranging from economics/livelihood to environmental protection to community involvement in public affairs. The awarded programs also came from various regions of the Philippines, and were conducted by barangays, cities, municipalities, and provinces alike.

Selecting Innovative Cities

An uneven distribution of award winners is found; some LGUs have won more awards than others. As many as 35 out of 81 provinces (43.2%), 58 out of 144 cities (40.3%), and 96 out of 1,490 municipalities (6.4%) have won at least one GP award. But out of the 58 award-winning cities, 14 have won the award at least three times (see Table 4). We shall consider these as the Philippines' 'innovative' cities.

Table 4 provides the basis upon which selection for the Philippines' 'innovative' cities is conducted. Naga City in Camarines Sur and Marikina City in the NCR were selected as cases of 'innovative' city governments as they have won a large number of awards compared to other cities (ten and eight awards, respectively). They also concur with the study's focus on mid-sized cities: In 2010,

¹⁰ The GP Awards have been conducted every year since 1994, except in 2001, 2006, and 2011.

Naga’s population was 174,931, and Marikina’s was 424,150. The third city on the list, Quezon City, with seven awards, would not have qualified as it had a very large population (2.7 million in 2010). Cebu City and San Carlos City in Negros Occidental each has received six awards, which puts them similarly in the ‘innovative’ category, and they are also mid-sized in terms of population. Thus Cebu and San Carlos could also have been selected as part of the ‘innovative’ set. However, there was no reason not to choose Naga and Marikina.

Table 4: The Philippines’ ‘innovative’ cities

No.	City	Province or Region	Population (2010)	Number of Galing Pook Awards (1994-2014)
1	Naga	Camarines Sur	174,931	10
2	Marikina	NCR	424,150	8
3	Quezon City	NCR	2,761,720	7
4	Cebu City	Cebu	866,171	6
5	San Carlos	Negros Occidental	129,981	6
6	Puerto Princesa	Palawan	222,673	5
7	Mandaluyong	NCR	328,699	4
8	Muntinlupa	NCR	459,941	4
9	Iloilo City	Iloilo	424,619	3
10	Legazpi	Albay	182,201	3
11	Munoz	Nueva Ecija	75,462	3
12	San Fernando	Pampanga	285,912	3
13	Surigao	Surigao del Norte	140,540	3
14	Tagum	Davao del Norte	242,801	3

Source: Galing Pook Awards data, National Statistical Coordination Board

Selecting Typical Cities

To ensure diversity in the outcome phenomenon, the ‘innovative’ cases need to be compared with cities which were non-innovative. However, whereas

‘innovative cities’ were easier to identify through awards, ‘typical cities’ could not be identified as easily. Selection of typical cases was conducted through three stages: (1) narrowing down candidates from a long to a short list, (2) desk research to ensure non- or low-innovativeness, and (3) discussion with public administration experts who were familiar with local governments to confirm the cases.

There are three criteria for narrowing down the candidate cities to a short list: (1) the city’s population is within a range of plus or minus 25% from the population of the city they are controlling, (2) it has the same ‘legal class’ as city they are controlling, and (3) the city has not won a GP award. These criteria provide us with a short list of ‘typical’ city candidates, wherein four are to be compared and contrasted with Marikina (Table 5) and two with Naga (Table 6).

Table 5: Short list of ‘typical’ cities to compare with Marikina

No.	City	Province or Region	Population (2010)	Legal Class	Year of Charter
1	Bacolod	Negros Occidental	511,820	Highly urbanized	1938
	<i>Marikina (innovative)</i>	<i>NCR</i>	<i>424,150</i>	<i>Highly urbanized</i>	<i>1996</i>
2	Malabon	NCR	353,337	Highly urbanized	2001
3	Lapu-Lapu	Cebu	350,467	Highly urbanized	1961
4	Angeles	Pampanga	326,336	Highly urbanized	1964

Table 6: Short list of ‘typical’ cities to compare with Naga City

No.	City	Province or Region	Population (2010)	Legal Class	Year of Charter
	<i>Naga (innovative)</i>	<i>Camarines Sur</i>	<i>174,931</i>	<i>Independent component</i>	<i>1948</i>
1	Dagupan	Pangasinan	163,676	Independent component	1947
2	Santiago	Isabela	132,804	Independent component	1994

Next, further investigation of the typical case candidates were done through desk reviews to ensure that they have not been recognized as ‘innovative’ (i.e., by other awards, or the media). Such was conducted by keyword searches in the NUS library and Singapore National Library electronic catalogues and internet-based research (government websites, Philippine media articles, etc.). Afterwards, discussions were also conducted with two Philippine public administration scholars.

Such probes found that Bacolod and Angeles have actually conducted a number of public innovations but have not received any *Galing Pook* awards. That leaves us with either Dagupan or Santiago to control Naga. Finally, Dagupan City, Pangasinan was chosen as Naga’s control because the two were similar in population size and years of being chartered. Furthermore, Naga and Dagupan were core cities of the Bicol and Ilocos regions, respectively, and are particularly notable nationwide for high poverty rate (Balisacan and Hill 2007).

Meanwhile no prominent information on public innovations was found for Malabon and Lapu-lapu; either city would be appropriate to be compared and contrasted with Marikina. Finally, Malabon City, NCR was selected as Marikina’s control because, like Marikina, Malabon is part of the NCR but not a very significant part of the metropolitan in terms of population and economy.

Indonesian Cases

In Indonesia, three awards in particular have recognized public innovation at the subnational level since the start of decentralization. First, the Urban Management Innovation (*Inovasi Manajemen Perkotaan* or IMP) Award started in 2008 to recognize innovative programs in the fields of urban management: land use planning, water and sanitation, slum upgrading, management of traditional markets, and management of informal street vendors. Second, the Innovative Government

(IG) Award was started in 2010 to acknowledge innovative programs in the field of public administration, public service, community empowerment, and regional competitiveness. Nominees are not based on applications, but preliminary identification by the central government. Both of the IMP and IGA awards are conducted by the Ministry of Home Affairs. Third, the Public Service Innovation Competition (*Kompetisi Inovasi Pelayanan Publik* or Sinovik) is a recent effort that started in 2014 to encourage public innovation by the Ministry of State Apparatus and Bureaucracy Reform. The competition is open to programs conducted by national and regional government organizations. The top-99, top-33, and top-nine programs are published, and awards are given by the minister.

Since the intention of this study is to scrutinize cities which have been innovative over a relatively longer period, it was decided that the main source of identification for ‘innovative’ cases is the IMP Award. The latter focuses specifically on urban-related issues, and has been conducted the longest: since 2008 (note that this is fairly recent compared to the GP Awards of the Philippines, which started in 1994).¹¹

For a program to be eligible for the IMP Award, five criteria need to be fulfilled: (1) it has been operational for at least two years, (2) it has a new and unique element that has not been applied in other Indonesian regions, (3) it includes participation from community members, (4) it is not funded by the national budget or foreign aid, and (5) it has sustained positive impact on the community. With these eligibility criteria, a city government submits an application, which is then reviewed according to six judging criteria: (a) newness and uniqueness, (b) impact on the

¹¹ The following description of IMP Award eligibility criteria, judging criteria, and selection process is based on a PowerPoint file given by the award administrator, following an interview.

community, (c) community participation, (d) cross-stakeholder coordination, (e) cost-benefit comparison, (f) sustainability of the program.

The selection involves a similarly rigorous process of trimming down a long list, a presentation in Jakarta, and on-site validation. First, an independent judging panel (which includes non-civil servant experts in urban management, public policy, environment, economics, and social welfare) and a technical team from the ministry identify a list of promising programs based on their applications. Second, those who make it to the short list are invited to give a presentation to the judging panel in Jakarta and answer related questions. Third, based on the presentation and Q&A, the judging panel decides on a list of ‘finalists’ that would undergo on-site validation. Fourth, the panel sits together and tallies the scores to identify winners.

Selecting Innovative Cities

As many as seven out of 93 Indonesian cities between 2008 and 2012 have won at least two IMP awards (see Table 7). We shall consider these as Indonesia’s ‘innovative cities’.

Table 7: Indonesia’s ‘innovative’ cities

No.	City	Province	Population (2010)	Number of IMP awards
1	Balikpapan	East Kalimantan	557,579	3
2	Pekalongan City	Central Java	281,434	3
3	Cimahi	West Java	541,177	2
4	Payakumbuh	West Sumatra	116,825	2
5	Pontianak	West Kalimantan	554,764	2
6	Probolinggo	East Java	217,062	2
7	Surakarta (Solo)	Central Java	499,337	2

Source: IMP Awards data, Central Statistics Agency

Table 7 provides the basis for selection of Indonesia's 'innovative' cities. Pekalongan City in Central Java and Balikpapan City in East Kalimantan have won the IMP award in all three occasions that it was conducted, covering a period of five years. Both cities are the core of its respective metropolitan areas. They also fit the criteria of mid-sized cities. In 2010, Pekalongan's population was 281,434 and Balikpapan's was 557,579. The other five cities on the list could be claimed to be 'as innovative' or even 'more innovative' than Balikpapan and Pekalongan. However, there was no reason not to choose the two which have won more awards, as they all could be considered as part of the 'innovative' cities set.

Selecting Typical Cities

As in the Philippine example, selection of non- or low-innovative cities is not a straightforward task. Moreover, public innovation awards are a new phenomenon in post-decentralization Indonesia which started only in the second half of the 2000s. The fact that a city has not won an IMP Award does not automatically render it as 'non-innovative'. Therefore, identification of 'typical' cases was conducted in three stages, similar to the process of selecting typical Philippine cities: (1) narrowing down candidates from long to short list, (2) desk research to ensure non- or low-innovativeness, and (3) discussion with national public administration experts.

Narrowing down the candidate cities to a short list is done using three criteria: (1) the city is in the same 'population size category' as the city they are controlling¹², (2) like Pekalongan and Balikpapan, the city should also be a core city,

¹² Indonesia recognizes a city size classification based on population, which include: "metropolitan city" (more than one million), "large city" (between 500,000 and one million), "medium city" (between 100,000 and 500,000), and "small city" (less than 100,000).

not part of another city's metropolitan area, (3), for logistics reasons, considering the vast size of Indonesia, the city should not be located where it would be substantially costly or time consuming to reach¹³, and (4) the city has not won any of the three public innovation awards described above, which include the IMP, IGA, and Sinovik awards. All Indonesian cities are autonomous, so there is no difference in legal class between one city and another. These criteria provide us with a short list of 'typical' city candidates, wherein four are to be compared and contrasted with Balikpapan (Table 8) and six with Pekalongan (Table 9).

Table 8: Shortlist of 'typical' cities to compare with Balikpapan

No.	City	Province	Population (2010)	City status
1	Pekanbaru	Riau	894,255	1946
2	Samarinda	East Kalimantan	826,394	1959
3	Jambi	Jambi	661,470	1946
4	Tasikmalaya	West Java	641,253	2001
	<i>Balikpapan (innovative)</i>	<i>East Kalimantan</i>	<i>548,859</i>	<i>1959</i>

Table 9: Shortlist of 'typical' cities to compare with Pekalongan

No.	City	Province	Population (2010)	City status
1	Bengkulu	Bengkulu	375,141	1957
2	Cirebon	West Java	319,353	1965
	<i>Pekalongan (innovative)</i>	<i>Central Java</i>	<i>295,954</i>	<i>1950</i>
3	Tegal	Central Java	254,450	1950
4	Tanjungpinang	Riau Islands	210,836	2001
5	Pangkalpinang	Bangka Belitung	200,434	1956
6	Madiun	East Java	200,403	1965

¹³ Cities in eastern Indonesia (Maluku and Papua regions), as well as smaller cities that would take more than five hours of road travel to reach were not preferred (admittedly, this creates additional bias)

After the list was compiled, a desk review (similar to the one conducted for the Philippine shortlists) and discussions with Indonesian public administration scholars were conducted to confirm whether these cities could have otherwise been considered 'innovative', despite not having won prominent awards.

Through this exercise, it was found that two of Balikpapan's control candidates (Pekanbaru and Jambi) could be argued to be innovative. This leaves two remaining candidates to control for Balikpapan, namely Samarinda and Tasikmalaya. Further considerations highlighted that Samarinda (rather than Tasikmalaya) is closer in character with Balikpapan. Samarinda is situated quite close to Balikpapan, (2 hours driving distance). Both cities are located in the same province (East Kalimantan, which is rich in oil and gas), and close to the major river delta in their respective areas. Both are endowed with large public finance derived from natural resources. Meanwhile, Tasikmalaya is located in the inland areas of West Java. Thus Samarinda City, East Kalimantan is selected as the 'typical' case to control for Balikpapan.

The desk review also found that three of Pekalongan's control candidates (Cirebon, Tegal, and Madiun) could be argued to be 'innovative'. This leaves three remaining candidates to control for Pekalongan, namely Bengkulu, Tanjungpinang, and Pangkalpinang. The first plan was to conduct research in Bengkulu, which is similarly a mid-sized port town on a big island. However, after failed attempts at requesting interviews with city leaders,¹⁴ Tanjungpinang was approached and the city was willing to accept interview requests. Both Tanjungpinang and Pangkalpinang

¹⁴ In November 2014, research and interview requests were not entertained by the office of Bengkulu City mayor. Later it was found out that the mayor was being investigated for a corruption case.

are port towns, and either arguably would have been acceptable controls. In terms of practical reasons, however, Tanjungpinang is much closer to Singapore and would make it easier logistically to visit. Thus Tanjungpinang City, Riau Islands, completes the selection of 'typical' city to control for Pekalongan, Central Java.

b. Data Collection

The research sourced data from multiple sources in attempt to triangulate the information received. The data comes in various forms. Primary data was derived from semi-structured interviews, casual conversations, and direct observation of activities. Secondary data include national and local statistics, the city governments' formal publications (past and present), national and local media articles (past and present), and local history books. Interviews make up an important component of the data, and will be explained in more detail.

Primary Data: Interviews

Interview subjects were identified based on intentional or purposive sampling in order to: (1) represent a variety of institutions or interests, (2) obtain specific information related to an innovative program, and (3) obtain specific information about issues facing the city. Initially, it was targeted that 8-12 interviews would be conducted in each city. The following is the 'rule of thumb' to identify respondents:

1. At the national level, interviews were sought with:
 - a. Award program administrators, and
 - b. Prominent public administration scholars who have written about public innovation, decentralization, and local governance.

2. At the local level, interviews were sought with people representing the following groups:
 - a. The city's chief executives (mayors), past and present,
 - b. City councilors, past and present,
 - c. Business interests, and
 - d. Civil society (including NGOs, people's organizations, and academics).
3. Other interview subjects were identified through desk review of the awards received by 'innovative' cities, or prominent programs conducted by 'typical' cities. This may suggest:
 - a. Heads of city departments who were responsible for conducting the city's innovative or prominent programs,
 - b. Civil society groups which partnered with the city government in conducting such programs

After preliminary identification of interview subjects, formal letters were sent to the current mayor to request for interviews and support for research (i.e., to help arrange interviews with identified respondents). If some of these respondents were perceived to have 'problematic' relationship with the mayor (i.e., the current mayor's 'rival'), they were approached for interviews independently (not through the mayor's office). Samples of interview request (invitation) letter, participant information sheet, and consent form, are provided in Appendix 1: Sample of Interview Request.

Once semi-structured interviews were underway, more respondents were identified through snowball method (recommendations from previous respondents, or hints from specific issues that they mentioned). Some of these additional

respondents were either approached through the person who suggested them, or independently by the researcher.

The interviews were conducted directly by the researcher in Bahasa Indonesia for the Indonesia cases, and in English for the Philippine cases. I am a native Indonesian speaker and in the Philippines, English is widely spoken. In this manner, I am fairly confident that I have captured the main messages conveyed during the interviews. At some points during the interview, the respondent may use phrases in local languages (Javanese in Pekalongan, or Bikol in Naga). When this happens I would ask them for clarification, and again I would confirm these phrases after the interview with other native speakers.

Table 10: Formal interviews conducted (by city and stakeholder)

No.	Cities	City Govt. (Chief Executive)	City Govt. (Dept. Head)	City Council	Business Interest	Civil Society	Total per City
1	Naga	3	4	1	1	2	11
2	Marikina	2	4	2	1	2	11
3	Dagupan	2	4	2	1	1	10
4	Malabon	1	2			2	5
Count per stakeholder - Philippine Cities		8	14	5	3	7	37
5	Pekalongan	2	5	1	2	6	16
6	Balikpapan	2	3	1	2	2	10
7	Samarinda	2	1	2	2	2	9
8	Tanjungpinang	2	2	1	1	4	10
Count per stakeholder - Indonesian Cities		8	11	5	7	14	45
Total per Stakeholder		16	25	10	10	21	82

Ultimately, a total of 82 interviews were conducted, averaging 10 interviews per city. In some cities like Malabon, securing formal interviews were difficult (except the mayor and a few others, other respondents were hesitant or unavailable

to be contacted) and only five interviews could be conducted. To compensate the gap in data, the strategy was to obtain and analyze more secondary data, and conduct more casual conversations and observations around the city. In contrast, interviews were welcomed and easily arranged in Pekalongan, and a total of 16 interviews were conducted. Table 10 summarizes the number of interviews conducted at the local level, in eight cities. The list of interview questions is provided in Appendix 2: Interview Questions. The full list of interview subjects is provided in Appendix 3: Interview Respondents.

Other Primary Data

Aside from interviews, primary data were sought from casual conversations and direct observations. Casual conversations were conducted informally with random people met during fieldwork, such as taxi drivers, restaurant owners, hotel staff, etc. This is a triangulating mechanism to compare the responses obtained through formal interviews with perspectives of the layperson. It also helped to better understand how leadership, society, and public innovation issues were viewed from the average citizen's point of view. Main points from these conversations were noted by the researcher afterwards and were reviewed when analyzing the cases.

Aside from the casual conversations, direct observations were also conducted. The researcher attended some activities related to the city's flagship programs to observe how the activities were conducted, and how participants communicated and related to each other. Transect walks were also conducted across the city, i.e., to observe physical artefacts of how the city was managed, and of the city's programs.

Secondary Data

Secondary data was sought from the city's information office or statistics agency, the city government website, the city public library, the local university library, local media outlets and websites, and local book stores. The most common form of secondary data collected includes:

1. Formal city statistics (yearly publications), including social, economic, and physical data, as well as data on political composition of the city council over the years
2. The city government's formal reports, statements, and ordinances/regulations
3. Other publications of the city government (brochures, profiles of flagship programs)
4. Local media articles (major events, achievements, scandals, etc. that occurred)
5. Books of local interest (local history, culture, prominent figures, etc.)

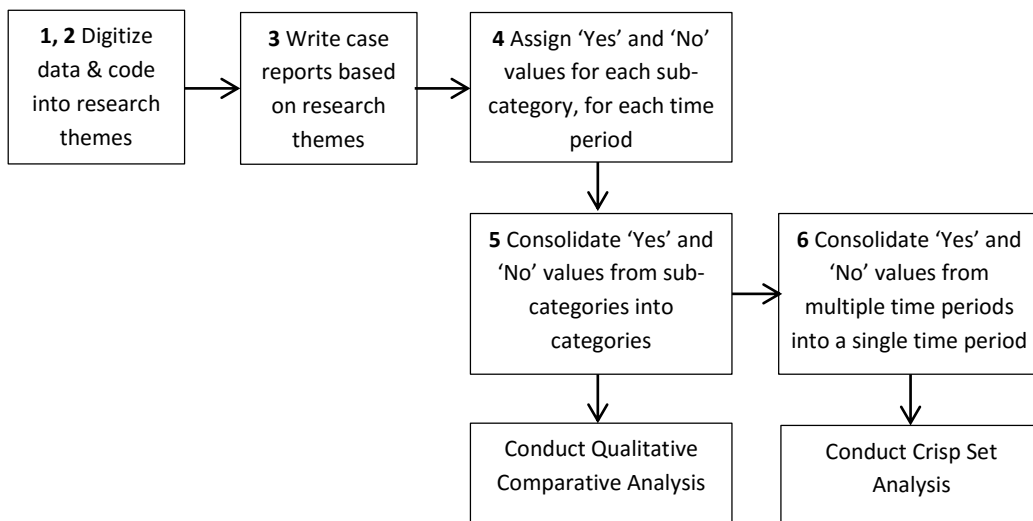
To the extent possible, the secondary data is collected to cover present and past conditions. This is hoped to assist in the conduction of archival and historical analysis of how the city deals with leadership, society, and transaction cost issues over time. List of city or case-specific data, reports, books, and media articles are provided in Appendix 4: Case-specific References.

c. Data Analysis

Data analysis is conducted to examine the extent to which explanatory factors were 'present' or 'absent' in the eight cases. This was done using simple set analysis and Boolean algebra, followed by the QCA method (Ragin 1987). Ultimately,

for each city, there would be a list of ‘Yes’ and ‘No’ values related to the explanatory factors. However, with the large amount of primary and secondary data that has been collected (i.e., more than 60 hours of interview recordings), analysis needed to be done systematically. Figure 9 provides an overview of the procedures conducted to analyze the data.

Figure 9: Data Analysis Procedure



Digitizing and Coding

First, relevant data was digitized. For primary data, all interviews were transcribed and field notes were typed in the computer or scanned. Some of the secondary data, such as certain paragraphs, tables, etc. were also digitized (if not already in digital form).

Second, the data was coded using qualitative data analysis software called QDA Miner Lite. Coding helped organize the data according to the themes of this research. Each relevant sentence, statement, paragraph, or table was coded into a number of categories and sub-categories, as in Table 11.

Table 11: Coding Categories and Sub-categories

No.	Category	Sub-category
1	General information about the city (demographic, economic trends, etc.)	
2	Issues facing (or that was faced) by the city	
3	City government programs to deal with those issues	
4	Data and opinions about the city's leadership	a. Charisma b. Commitment c. Past experience
5	Data and opinions about the city's society	a. Norms and values b. Organizations c. History
6	Data and opinions about the transaction costs of conducting public innovations	a. Information costs b. Negotiation costs c. Enforcement costs
7	Historical period (time element): to identify the sequence of 'processes' or 'path' that was taken by a particular	a. Period of Mayor A b. Period of Mayor B c. Etc.

Preparing Case Reports

Third, after the data had been organized into themes, it was easier to write the case reports which provide descriptions and narratives about each theme. These are presented in Chapter 4 and Chapter 5. The case reports provide narratives based on coded data about the cities' background, innovative programs, and conditions related to society and leadership. They also provide more detailed narratives about how each city government dealt with various transaction costs in their effort to introduce and conduct public innovations.

Assigning 'Yes' and 'No' Values

The fourth step concludes the 'presence' or 'absence' of favorable leadership, society, and transaction cost in a particular city, at a particular period. These were done by assigning 'Yes' and 'No' values that would enable a set analysis.

For example, “Did City Government [A] have favorable working relationship with the city council during the period of Mayor [X]?” The answer could be ‘Yes’ or ‘No’.

The ‘yes’ and ‘no’ values were assigned upon reviewing a database of statements (taken from interview transcripts, notes from casual conversations, media articles, books, project reports, etc.) which have been coded and categorized according to the explanatory factors (the ‘case database’). I have tried to ensure a variety of respondents and data sources. When dealing with ‘mixed comments’, I weigh the data and ultimately decide on ‘yes’ or ‘no’. Admittedly, the researcher’s judgments (which are prone to subjectivity) were used in reference to knowledge of the Philippine and Indonesian contexts. In creating this binary value, some nuances regarding the case were discarded. Such nuances, however, remain available to be inspected in the case reports.

Consolidating Values into Categories

The fifth step consolidates the ‘Yes’ and ‘No’ values from the nine sub-categories into three main categories of interest: leadership, society, and transaction costs. To maintain the ‘Yes’ / ‘No’ dichotomy, a simple consolidation is conducted by counting the majority of occurrences. For example, the leadership factor is composed of three sub-factors (charisma, commitment, and diversity of experiences). If City Government [B] has two ‘Yes’s’ and one ‘No’ for the three leadership sub-factors, it means it has a ‘Yes’ for leadership. This step, again, was taken to achieve dichotomous values that would enable crisp set analysis.

Results of this step are used to identify various configurations of how the ‘presence’ and ‘absence’ of explanatory factors relate to each other. Based on the QCA method (Ragin 1987), there are 16 possible configurations depending on whether the city government (1) was considered ‘innovative’ or ‘typical,’ (2) had

transformational leadership, (3) had progressive society, and (4) faced low transaction costs, at various time periods. Such configurations are presented in a ‘truth table’ (See Table 12). This allows analysis into the factors that might enable the different cities to become innovative over time.

Table 12: Sample Truth Table: Configurations of Outcome and Explanatory Factors

Innovative ?	Transformational leadership?	Progressive Society?	Efficient Transactions?	Possible Configuration	Likelihood of observation	
Y	Y	Y	Y	1	Very High	
			N	2		
		N	Y	3	Low	
			N	4		
	N	Y	Y	5		
			N	6		
		N	Y	7		
			N	8		
N	Y	Y	Y	9		Very Low
			N	10		
		N	Y	11	High	
			N	12		
	N	Y	Y	13		
			N	14		
		N	Y	15		
			N	16		

Consolidating Values into One Time Period

The sixth and final step consolidates the ‘Yes’ and ‘No’ values across different time periods for each city, such that there would be only one consolidated time period. For example, “Did City Government [B] have transformational leadership throughout the past 10 years?” The possible answers are (1) ‘Yes’, (2) ‘Now mostly Yes, but previously No’, (3) ‘Not Always’ or ‘Not Consistently’, and (4) ‘No’. Again, to simplify into dichotomies, answers (1) and (2) are ultimately considered as ‘Yes’, while answers (3) and (4) are considered as ‘No’.

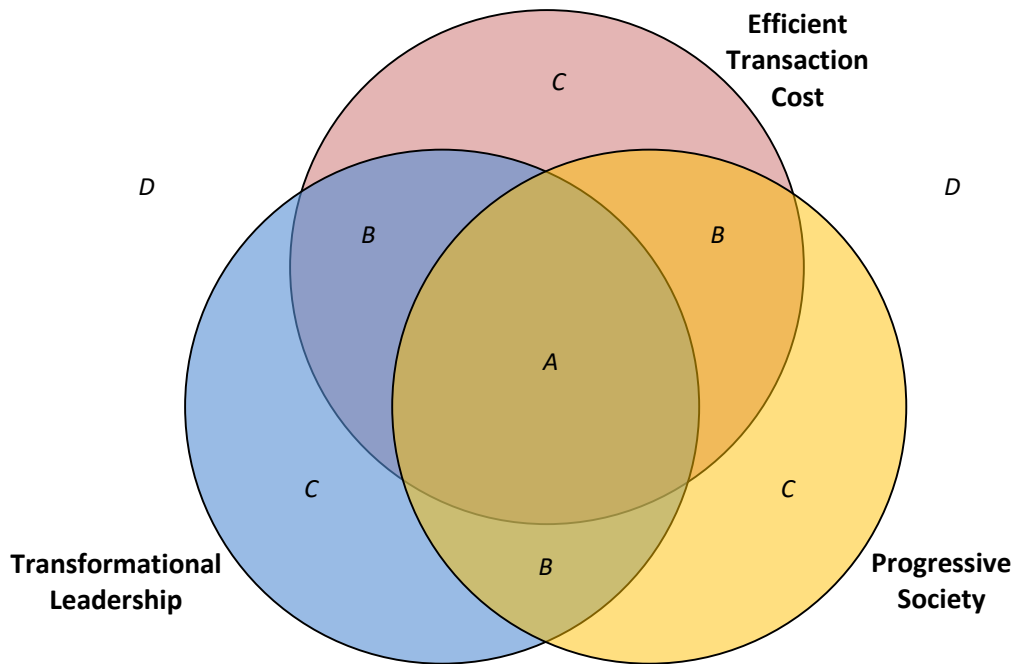
This allows the mapping of the eight cases (both the ‘innovative’ and ‘typical’ cities) into ‘membership’ or ‘non-membership’ of three crisp sets (cities that have transformational leadership, cities that have progressive society, and cities which have low transaction costs). The expectation was that ‘innovative’ cities would be members of these sets (see Table 13).

Table 13: Sample Set Analysis: Expected and Unexpected Observations

		Innovative?	
		Yes	No
Set 1: Transformational leadership?	Yes	Expected observations	Unexpected observations
	No	Unexpected observations	Expected observations
Set 2: Progressive Society?	Yes	Expected observations	Unexpected observations
	No	Unexpected observations	Expected observations
Set 3: Efficient Transaction Costs?	Yes	Expected observations	Unexpected observations
	No	Unexpected observations	Expected observations

As illustrated in **Error! Not a valid bookmark self-reference.**, a city could be (A) member of all three sets, or (B) member of any combination of two particular sets, or (C) member of any one particular set, or (D) not a member of any sets. The relationship among the sets remains obscure at this point, but it is expected that cases which show an overlap of membership in more sets are more likely to be innovative.

Figure 10: Sample Set Analysis: Cases in relation to Explanatory Factors



Legend:

- A: Case is member of all three sets (expected to be 'innovative')
- B: Case is member of any two particular sets
- C: Case is member of any one particular set
- D: Case is not a member of any set (not expected to be 'innovative')

3. Quality Considerations

The quality of a research is related to issues of reliability and validity. The following explains how such issues are present in this thesis, and how they were addressed.

a. Reliability

Reliability refers to the consistency in which the research is conducted across researchers ('inter-rater reliability'), across research subjects ('representative reliability'), and across time ('stability') (Neuman 2011).

To ensure inter-rater reliability, the procedures of data collection and analysis have been documented in this chapter, with supporting documentation (i.e., interview questions, list of secondary data) as appendices. The information provided herein could be further refined as a 'case study protocol' that could be used by another researcher (Yin 2009). Admittedly, however, interview questions were open-ended and the interviews were done in semi-structured manner. Some responses required follow-up questions by the researcher, which often depend on the researcher's creativity and familiarity with the topic. Consequently, some information may not have been uncovered if the researcher was not sensitive to responses which deserved to be further queried.

To ensure representative reliability, the research has suggested a 'standard list' of interview subjects to be approached (based on the 'rule of thumb' explained in primary data sources). However, a subject could suggest other persons to be interviewed based on a 'snowball' method. Therefore, it may not be advisable to maintain the same list of interview subjects across all cases, especially since each case has a certain level of uniqueness. The least that could be maintained is that the 'core' group of interview subjects remains the same across the cases, but 'additional' subjects may be included depending on the need. Furthermore, the list of interview questions could guide subjects to remain focused on the research topic, making sure that they respond to similar questions.

To ensure stability across time, inputs were sought not only from those who were holding relevant positions at the moment (i.e., the current mayor, current heads of departments), but also those who held such positions in the past (i.e., the past mayor, past heads of departments). There are, however, challenges in obtaining relevant data from such subjects, as memories fade and the required respondents

may no longer be present or alive. In such conditions, interviews were conducted with other people who were closely involved with key persons in the past (i.e., as was done for the research in Marikina and Naga). To complement data from the interviews, secondary data from archives and historical sources were also sought to better understand the dynamics of innovativeness in the city government over time.

Reliability could also be achieved by building a 'case database'. This includes research notes, relevant secondary data, snippets of relevant information, and interview transcripts. This thesis has utilized a data analysis protocol where interviews and other relevant data were digitized, transcribed and coded according to various categories of explanatory factors, across time, and for each case. This enables the creation of a 'case database' where supporting quotes by interview respondents are easily searchable and could be presented as part of a 'chain of evidence' (Yin 2009).

b. Validity

Construct Validity

Validity refers to the extent to which the research appropriately answers the question through a scientific method (Neuman 2011). Construct validity ensures that the meaning (and measurement) of certain concepts are adequately captured in how they are operationalized (Cronbach and Meehl 1955). To help ensure that conceptual meanings are adequately captured, each of the explanatory factors is decomposed into sub-factors. For example, the notion of 'transaction costs' is divided into information costs, negotiation costs, and enforcement costs, where each are again divided into three more detailed sub-factors. The final value of each factor is obtained by re-aggregating the values of the sub-factors, similar to the method of 'institutional decomposition' (Saleth and Dinar 2004).

While the explanatory factors were proposed by the researcher, the definition and measurements of the outcome (public innovativeness) are dependent on 'meaning' given by other parties. The notion of 'public innovativeness' in this research depends on data of innovation award winners from Philippine and Indonesian national agencies. However, the awards included some formal criteria that are not directly or necessarily related to innovation, such as success ('proven positive results') and community participation. These arguably obscure the purist definition of 'innovation', and imply that the notion of innovation in this research should be used cautiously.

Also, the awards are biased towards informal aspects which may have affected the judging process and are unrelated to innovativeness, namely: ability of the city to prepare compelling applications and the mayor's charisma when presenting the program. These are related to some of the concepts of the explanatory factors. For example, ability to prepare applications is related to capability of civil servants, while mayor's charisma is one of the sub-factors of leadership. Therefore, there are possibly some 'contaminations' which occurred between the outcome and the proposed explanatory factors. To ensure such biases are minimized, the awarding bodies have conducted on-site validations, i.e., to check that the program works to an extent similar to that presented in the application.

Contamination of constructs between the explanatory factors is also an issue faced by this research. Here, transaction costs are understood to be the political and administrative hassles faced by a leader when introducing an innovation. To distinguish transaction costs from leadership (another explanatory factor), the latter is understood as the *personal* aspects of the leader, namely

charisma, commitment, and diversity of experience. While attempts have been made to distinguish the two explanatory factors, some aspects of transaction costs, such as involvement in networks, or quality of relationship with citizens groups, remain affected by the actions of the leader.

On the other hand, the society explanation refers primarily to the deep-rooted institutions that apply among citizens (here considered *external* to the leader), namely norms, organizations, and history. The transaction costs faced by a leader when introducing innovative programs may be affected by the predominant norms that apply in the society. For example, openness to new ideas and trust may help to reduce information costs, while an organized civil society may help the mayor with less negotiation hassles.

These highlight the issue of endogeneity that exist between the explanatory factors, namely that leadership and society play a role in shaping the transaction costs. The subsequent analysis shall take note of these interactions between the explanatory variables. However, transaction costs remain a valid factor to be explored on its own as it gives a specific perspective (albeit perhaps still not a 'clean' one) of how leaders interact with citizens, civil servants, and political rivals. Several aspects of transaction costs (namely: access to ICT, political composition of city councilors, presence of detrimental political rivals, capability of civil servants) remain external to both leadership and society.

Internal Validity

Given the construct limitations as described above, this research attempts to improve internal validity through care in case selection, triangulation of explanations and data, as well as dealing with researcher and interviewees' subjectivity.

The case selection procedure has been explained to show that the research applies adequate care in the selection of the cases, to enable comparison between 'innovative' and 'typical' city governments. Intentional selection, however, is prone to bias. The biases related to 'innovative' cases are related to biases of the awards, which were discussed in construct validity issues. The biases related to selection of 'typical' cases, however, were more associated with the researcher's decisions, such as focusing on mid-sized cities, using population criteria in comparison to the 'innovative' cases, choosing cities which were 'independent' of their provinces (which excludes 'component cities' in the Philippines), and choosing Indonesian cities which were not too costly or time consuming to visit (which excludes cities in the farthest Maluku and Papua regions). The biases caused by these selection-related decisions, however, are expected to be less problematic as they were aimed to ensure more similarities among the innovative and typical cases. None of the selections were intentionally done with regards to knowledge of the explanatory factors.

A conscious effort to improve internal validity is by offering alternative ways of explaining the phenomenon. Thus, each of the three explanatory factors could be considered as 'rival explanations' to the other. Whereas the transaction costs argument is a relatively new proposition, adopting it does not mean that the more dominant explanations, namely leadership and society, should be abandoned. Comparing how various factors 'explain' the phenomenon is hoped to enrich the overall goal of the thesis.

Data triangulation is also conducted to achieve a similar aim of offering alternative perspectives. As explained in Data Sources, data as evidence is sought in multiple forms (interviews, observations, secondary data, formal reports, news

articles) and from multiple sources (city government, city council, civil society groups, etc.). These offer alternative ways to look at the phenomenon which could either highlight or downplay the information obtained from interviews.

An important threat to internal validity is researcher and interviewees' subjectivity. In analyzing the data, the researcher looks at patterns and themes, and *concludes* the presence of a particular explanatory variable in a case. Often, such presence could not be concluded in a 'clear-cut' manner, and the researcher has to use some level of subjectivity to decide 'Yes' or 'No'. The danger lies in the fact that the researcher already knows which cities were 'innovative' and which were 'typical'. To the extent possible, the researcher adheres to the principle of objectivity in attempt to find scientific knowledge. Whether or not such objectivity is achieved, ultimately, is up to readers to decide by inspecting the descriptions presented as case reports in Chapters 4 and 5, as well as reviewing the case database which contains quotes, articles, statistics, and other information.

The subjectivity of interviewees may also interfere with the research. Design contamination happens when respondents know that they were interviewed for being part of an 'innovative' city government. This may have tempted them to exaggerate the city's innovations or their favorite explanations as to why innovations were conducted. To ensure that the researcher obtained a more balanced understanding of the situation, again, these responses were compared against alternative sources of information, such as program reports, media articles, and interviews with other stakeholders.

External Validity

In attempting to achieve external validity, the research generalizes cases both towards a theory (theoretical generalization) and towards other cases (Yin

2009). For theoretical generalization, each case can be analyzed in terms of how it fits the proposed LST framework. Cases that do would contribute as an empirical observation of the theory, but does not necessarily conclude its validity. The presence of any case which does not fit such theory would be contrary to the expectation, and thus renders the theory invalid.

As the research utilizes a multiple-case method, 'replication logic' is also applied (Yin 2009). Some cases are envisioned as 'literal replications', where similar results were expected among the 'innovative' cities only, and among the 'typical' cities only. But some cases are 'theoretical replications', where contrasting results were anticipated, for example when comparing 'innovative' cities with 'typical' ones. Both findings, if confirmed, would strengthen the explanatory power of the research.

Some of the inherent characteristics of small-n research create problems in achieving external validity beyond the cases examined in this research. Moreover, detailed observations, uniqueness of each case, as well as a certain level of subjectivity in drawing conclusions present difficulty in generalizing the findings to other cities in general. With such limitations in reliability and validity, the findings of this research therefore remains 'quite speculative,' and needs to be further verified theoretically and empirically.¹⁵ It does, however, contribute to an initial development of a transaction cost theory of public innovation, which is still in its early stage.

¹⁵ 'Quite speculative' was also the way Ostrom (1990) described her 'design principles of long-enduring CPR situations'

Chapter 4: Philippine Cases

1. Background

Reform and Decentralization

The success of Philippines' "people power revolution" in toppling Ferdinand Marcos' authoritarian regime in 1986 brought forth a new era of democracy both at the national and local level. The country's new 1987 Constitution put in place reforms that limit the power of the executive while mandated Congress to enact a "local government code" that would enable more autonomy for local government units (LGUs). This code was later enacted as Republic Act No. 7160, also known as the Local Government Code (LGC) of 1991.

Decentralization in the Philippines has been conducted since 1992 according to LGC 1991. It has taken the form of devolution, where LGUs are given much autonomy to decide their development priorities and implement development programs. The transfer of much authority from the national government to LGUs is supported by transfer of personnel and fiscal resources. In 1992, at the onset of decentralization, about 60% of the Department of Agriculture, Department of Health, and Department of Social Welfare and Development' staff were transferred from the national government to various local governments (Wallich, Manasan, and Sehili 2007). Similarly, about 56% of the Department of Social Welfare and Development's budget and 40% of the Department of Health's budget were devolved. After decentralization (1992-2003), the average yearly expenditure of Philippines' LGUs was about 23% of the total public expenditure of the country. This

is an increase compared to 11% before decentralization (1985-1991). As of 2009, the proportion has risen even further to 25% (Martinez-Vazquez and Vaillancourt 2011).

Despite having significantly more resources to spend, LGUs remain limited in their authority to generate revenue. Most of the substantial taxes (i.e., personal and corporate income tax, consumption tax) are collected by the national government as part of the Philippines' internal revenue. LGUs are left with less substantial taxes, such as real property tax, property transfer tax, and amusement tax. LGUs are able to impose fees for services (i.e. yearly renewal of business permit), as well as charge for public utilities that they provide.

Part (40%) of the internal revenue collected by the national government is redistributed to LGUs according to a simple formula based on the LGU's land area and population. This is called the Internal Revenue Allotment (IRA). For the most part, LGUs have the autonomy to plan and decide what to do with their IRA. The IRA may have some role in reducing the drive to perform and generate revenue among some LGUs. It is large enough to enable LGUs to pay for staff salary and conduct very basic services, but not enough to conduct of substantial development programs or services. Therefore, LGUs which lack motivation or pressure from the citizens may just be able to survive providing a minimal level of service, while those who are more motivated are encouraged to generate more revenue to complement the IRA.

Local Governance

The devolution as assigned by LGC 1991 follows a hierarchy where provinces are identified as first-tier, municipalities and component cities are second-tier, and barangays are third-tier LGUs. Cities have three possible legal classes: 'component',

‘independent component’, or ‘highly urbanized’¹⁶. ‘Component’ cities, together with municipalities, occupy the second-tier hierarchy, under the province government. However, ‘highly urbanized’ and ‘independent component’ cities occupy the first-tier hierarchy, on par with the province government. They do not report, nor share any of their tax revenues, with the province government. Instead, they report directly to the national government and have a coordinative relationship with the province. The Philippines also have a grouping and coordination system above the province level called the region. But regions (with the exception of the Autonomous Region of Muslim Mindanao) are not LGUs; they are created to help the national government coordinate various issues related to provinces and independent component cities.

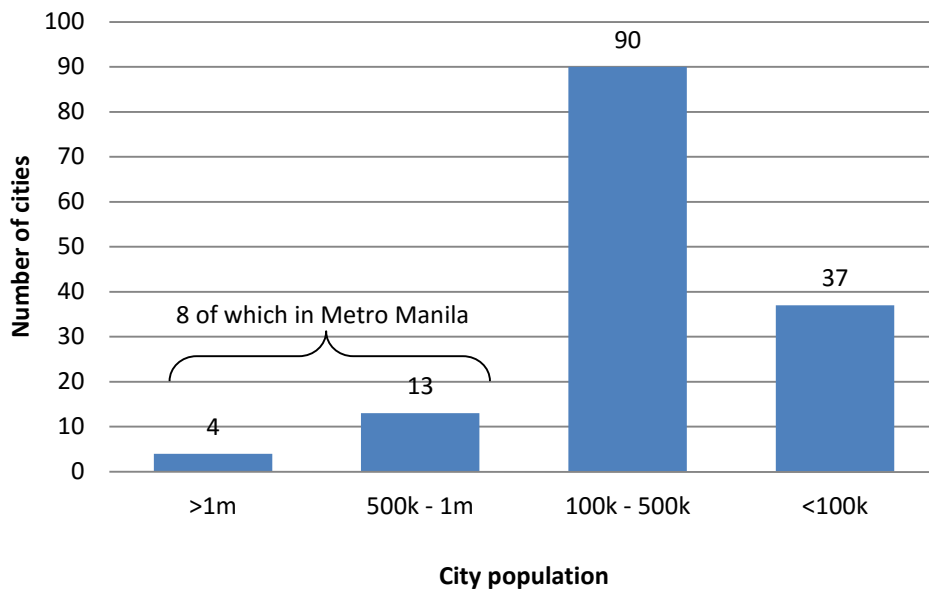
As of 2014, there are 17 regions, 81 provinces, 144 cities, 1,490 municipalities, and 42,028 barangays¹⁷. Out of the 144 cities, 34 are ‘highly urbanized’ and five are ‘independent component’ cities. The Philippines do not adopt a classification of cities based on population, but following Indonesia’s city-size classification, there are four cities with more than one million population (three of them are in the NCR), 13 “large” cities with population between 500,000 and 1 million, 90 “medium” cities with population between 100,000 and 500,000, and 37 “small” cities with population under 100,000 (see Figure 11). The average population of the Philippine cities is 256,411 and the median is 151,947.

¹⁶ **Highly Urbanized Cities** have a population of at least 200,000, and latest annual income of at least Fifty Million Pesos (1991 constant prices). **Independent Component Cities** are independent of the province as they have charters that prohibit voters from voting for provincial elective officials. **Component Cities** are those that do not meet both of the above requirements, and are thus considered a component of the province where they are geographically located.

Source: National Statistical Coordination Board, Philippine Standard Geographic Code (http://www.nscb.gov.ph/activestats/psgc/articles/con_cityclass.asp)

¹⁷ National Statistical Coordination Board, Philippines Standard Geographic Code (<http://www.nscb.gov.ph/activestats/psgc/>); accessed December 2014

Figure 11: Number of Philippine cities by population, 2014



Source: National Statistical Coordination Board, 2014

Provinces, cities, municipalities, and barangays conduct local elections every three years. The mayor, vice mayor, and city councilors each hold a three-year term, and can hold three consecutive terms (nine years) at the maximum. Each local candidate is elected independently of the other. Therefore sometimes the mayor and the vice mayor could come from opposing political factions. Representatives (congressmen and congresswomen) are sometimes also considered as “local” public officials because they represent the interests of a certain locality.

It is not uncommon to find political leadership at the local level dominated by strong families (“clans” or “dynasties”). Many of these were able to maintain their dominance through patronage politics, although there are also some clans which seem to be genuinely supported by the population. The 1987 Constitution discourages political dynasties by stating that: “The State shall guarantee equal access to opportunities for public service and prohibit political dynasties as may be

defined by law”¹⁸. However, until now no law has been passed to define a ‘dynasty’ and the phenomenon has persisted (Querubin 2012).

Political parties at the local level were arguably weak (Kasuya 2009). Local politicians tend to affiliate themselves with certain personalities (rather than parties), and such personalities typically would change parties to match the party of their preferred presidential candidate, whom they think have a strong chance of winning the election. When the local leader changes political parties, his or her political affiliates (aspiring vice mayor, representative, and city councilor candidates) would tend to do the same.

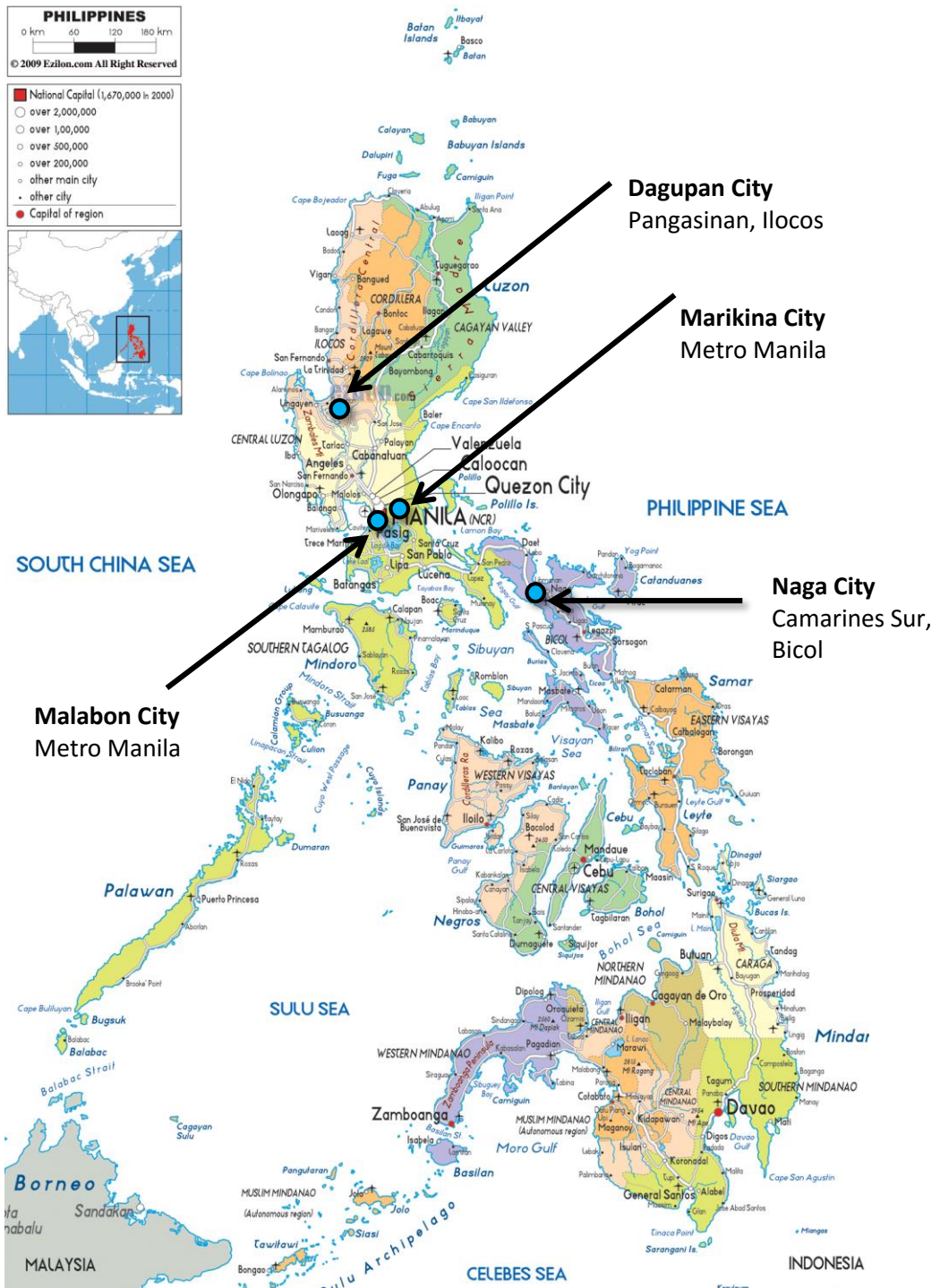
The city council (*Sangguniang Panlungsod*) passes ordinances and resolutions, approves the city’s budget, and makes sure the executive conducts their job according to LGC 1991. Most cities (132 out of 144) have between 10 and 12 councilors, with only 12 larger cities having 16 councilors or above. The vice mayor sits as the presiding officer of the city council; he or she does not vote, except when there is a need to break a tie.

Case Locations

Based on the selection of Philippine cases as identified in Chapter 3, a map of the approximate locations of the four cities is provided in Figure 12, followed by each of the case reports.

¹⁸ 1987 Constitution, Article II, Section 26

Figure 12: Indicative Location of Philippine Cases



2. Naga City (innovative case)

a. City Profile and Innovations

Naga City is located in the province of Camarines Sur in the Bicol Region.¹⁹ It is about 269 kilometers southeast of Manila, and can be reached from the capital city in 7-8 hours by land or 45-60 minutes by air.²⁰ Currently Naga is classified “first class” in terms of LGU income and is an “independent component” city of the province²¹. The city is known as the “Heart of Bicol” not only due to its central location within the region but also for its important role as the commercial, financial, educational, cultural, and religious center of Bicol. The city is also known as “Queen City” due to being one of the largest Marian pilgrimage sites in the Philippines.

At the latest 2010 census, Naga had a population of 174,931, which account for 9.3 percent of Camarines Sur’s population, spread over 27 barangays. Naga’s average yearly population growth rate was 2.69 percent between 2000 and 2010, 1.95 percent between 1990 and 2000, and 2.71 percent between 1980 and 1990²². This suggests that Naga is still experiencing quite rapid population growth. The Bicol Region is also known as one of the country’s poorest regions. Forty three out of 100 Bicolano’s were considered poor in 2012 (Calleja 2014, Balisacan and Hill 2007).

Naga City occupies an area of 84.48 square kilometers that stretches about 21 kilometers from the city center on its west to the slopes of Mount Isarog on its

¹⁹ There is another city called Naga in Cebu Province, Central Visayas.

²⁰ Naga City website (<http://www.naga.gov.ph/cityprofile/physical.html>)

²¹ National Statistical Coordination Board website (<http://www.nscb.gov.ph/activestats/psgc/municipality.asp?muncode=051724000®code=05&provcode=17>)

²² The city’s population was 137,810 in 2000, 115,329 in 1990, and 90,712 in 1980

east. Naga City and 14 surrounding municipalities in Camarines Sur collectively make up the Naga metropolitan area, which is managed by Metropolitan Naga Development Council. The city serves as the urban core of this metropolitan area while the other municipalities mainly produce or provide food, water, and space for the city's expanding industries and housing.

Innovations

Since the 1990s, Naga has received numerous honors that signify excellence and innovations in public management. The Galing Pook Foundation to date has awarded Naga with 11 prizes for 'outstanding' and 'trailblazing' initiatives, including an 'Award for Continuing Excellence' (ACE) for having won three awards with sustained impacts. Many of Naga's awards have been related to the institutionalization of people empowerment, professionalization of public bureaucracy, and improvement of education (see Table 14).

Table 14: Galing Pook Awards for Naga City

Year	Name of Program	Description
1994	Metro Naga Development Council	Collaboration between 15 LGUs that make up the Naga Metropolitan Area to share resources, complement and improve each other's capacity for the benefit of the overall region.
1994	Emergency Rescue Naga	Mobilizing & unifying the resources of local police and fire departments, hospitals, schools, media and barangay councils to provide quick emergency rescue services.
1994	Partners in Development (Kantabay sa Kauswagan)	Facilitating squatters to organize and obtain land tenure by relocating to new areas, buying land from landowners. The city provided free legal and technical assistance, infrastructure, and revolving loans.
1995	Productivity Improvement Program	Adopting merit-based, result-oriented, and efficiency-focused management of public resources, where government personnel are assessed and incentivized regularly.
1996	Government	Developing management information system to deliver effective and efficient services for residents

Year	Name of Program	Description
	computerization	and businesses, including population database, geographic information system, and computerization of critical government functions.
1996	Early education and development	Combining public day-care service with Montessori system of pre-school education to improve child preparedness to enter elementary school as well as tend to children with disabilities.
2002	People empowerment program	Institutionalizing the principles of “people power” through the creation of Naga City People’s Council as federation of local people’s organizations and formally giving space for representatives of civil society to influence the city’s political decision-making.
2004	Reinventing the Naga City School Board	Expanding the role of the school board to include planning, monitoring and budgeting, enlarging its membership to include representatives from diverse stakeholders, and giving its members voting rights.
2004	i-Governance Program	Expanding e-government and ICT functions to encourage good governance, by improving people’s access to two-way communication with the city government.
2007	Preparing Future Leaders	An internship program where every month, top youth leaders get a chance to work in the mayor’s office, the city council, and various government departments and NGOs/POs in the city.

Source: Galing Pook Foundation (various years)

Naga has received other recognitions from national and international organizations. For example, Asiaweek in 1999 declared it as one of Asia’s “most improved” cities, while UN-HABITAT awarded the city multiple times for its housing and participatory planning programs. Naga was also internationally acknowledged for its use of ICT for promoting good governance and for its effective public bureaucracy. More recently, Naga has actively adopted various media (magazine, gazettes, radio, television, and Social Media) to communicate their policies and activities with the public.

In the 2014 Philippines Cities and Municipalities Competitiveness Index, Naga was identified as the third most competitive city in the Philippines, behind only Makati and Cagayan de Oro. It ranked first for government efficiency, fourth for economic dynamism, and eighteenth for infrastructure. The city has been well established as a model of good governance and public performance throughout the Philippines. Every year Naga would receive 10,000 to 12,000 “governance tourists”, who sometimes come in bus loads.²³

With these achievements and attention, it has been arguably easier to find literature on Naga City and the way it has been governed (Koppel 1987, Kawanaka 2002, Rodriguez and Min 2003, Robredo 2004, Angeles 2007, Puatu 2010, Scharff 2011) as well as related social background (Carpio 2002, Hill and Angeles 2009, Hill 2011, Santos and Cordero 2013)

b. Society and Leadership

Society

Before the arrival of the Spaniards, Naga was already a thriving village on the confluence of two rivers that unify a large, fertile hinterland. Spanish troops established a city out of the village in 1575 and called it (Nueva) Cáceres. It was the third city formed in the Philippines after Cebu and Manila. The influential bishop of Cáceres sits at the metropolitan cathedral, and various religious organizations flourished and built important institutions such as Ateneo de Naga High School and University of Santa Isabel.

The Filipino revolution started in the Tagalog region but quickly spread to Bicol and from thereon gained a national character. Bicol is known as one of the

²³ Interview with Alec Santos, City Arts, Culture & Tourism Officer, 2014

centers of Filipino uprising; many Bicolaños were captured and killed during the time for engaging in revolutionary activities. In 1896, the local revolutionaries staged an uprising and defeated the Spanish governor of Bicol based in Nueva Cáceres. Again in 1942, guerilla forces freed Naga from the Japanese. Names of civic leaders who sacrificed themselves to free the people, such as Elias Angeles and Juan Q. Miranda, are honored as streets and plazas (General and O'brien n.d.).

Until today, Bicol Region is known as one of the nation's centers for liberal, progressive, and "people-power" movements against Marcos' martial law regime. Naga is also known as an "activist city" where civil society is strong and the people are critical of how the government is run. Public forums and political debates are common, supported by a tradition of free speech and the presence of various media outlets.²⁴ The city has been the base for NGO activities in the Bicol region. Due to its strategic location, many NGOs would set-up a regional office in Naga. This was facilitated by leaders of Ateneo de Naga, who provided a 'base camp' for NGO activists from Manila who happened to be in Bicol, or were planning to set up a new program in the region.²⁵

Ateneo de Naga influenced many of Naga's brightest students to be civic leaders through theology of liberation and the motto "to be men for others". One teacher, Father James O'Brien, was remembered fondly by Naga's activists (Castilla 2013). O'Brien was from New York, but was teaching Bicol culture and history based on local materials that he compiled. He constantly reminded his students to go back

²⁴ Interview with Johann de la Rosa and Danilo Ludovice, 2014

²⁵ Interview with Gabriel Bordado, Jr., 2014

to their hometown if they continued their studies in Manila, and challenged them to develop the region.²⁶

Nueva Cáceres regained its indigenous name of Naga during the American occupation and was later chartered as a city in the modern Philippine era in 1948. However, throughout most of the 20th century Naga City grew sluggishly and local politics was dominated by a paternalistic clan that dominated much of the Camarines provinces (Kawanaka 2002). The city's hinterland remains mired in poverty.

Leadership

The main figure behind Naga's transformations was the late Mr. Jesse M. Robredo, city mayor for six terms (three terms in 1988-1998 and another three in 2001-2010). Shortly after serving as mayor, Robredo was appointed as Secretary of Interior and Local Government under President Benigno Aquino III, until a plane crash took his life in 2012. Since 2010, Naga has been led by Atty. John G. Bongat, who previously served as City Councilor for three terms (2001-2010) under Robredo's slate. It could be argued that for 26 years since 1988, Naga City has had a stable and continuous leadership.

Jesse M. Robredo

Robredo was born and raised in Naga and went to Ateneo de Naga high school. He then studied engineering and business administration at De La Salle University and University of the Philippines (UP) at Diliman, respectively. During his "break" as mayor in 1998-2001, Robredo studied for a Master of Public Administration degree in Harvard University. Robredo was in Manila working for San

²⁶ Interview with Gabriel Bordado, Jr., 2014

Miguel Corporation when the People Power Revolution took place. Inspired by the movement and seeing the change in politics as opportunity to serve, Robredo came back to Naga in 1986 to get into public service (he was Program Director of the Bicol River Basin Development Program) and then into politics (he was first elected as mayor in 1988 at the age of 29) (Santos and Santos 2013).

Robredo was known for his approachable and 'listening to the people' style on the one hand, and demanding high performance from his staff on the other hand. People who worked closely with Robredo believed many of his innovations were inspired by modern management techniques that he learned in the private sector, as well as his commitment to the ideas embedded in the people power revolution.²⁷ After the revolt, many were calling for 'people empowerment', but very few had a clear idea on how to operationalize it. Based on close consultation with civil society activists, Robredo led Naga City to devise the *People Empowerment Program*, where the civil society became part and parcel of the city's decision-making and development process. Robredo also instilled the value of frugality in running the government, and prioritized the productivity of his employees over beautifying city hall. The leadership style of Robredo have been explored in the literature (Kawanaka 2002, Robredo 2004, Puatu 2010, Santos and Santos 2013).

John G. Bongat

Bongat grew up in Naga and also went to Ateneo de Naga High School. He then studied political science at Ateneo de Manila and law at UP Diliman. In Manila, Bongat worked for reputable law firms and was also the Vice President of Megaworld Corporation (a major real estate company). He was also the Director for

²⁷ Interview with Gabriel Bordado Jr., 2014

Legal Aid at the Integrated Bar of the Philippines, where he provided free legal assistance to those in need.

Bongat returned to Naga in 1998 to take care of his family, continue his private law practice, and later get into politics as part of the Robredo team. He garnered massive support from Nagueños for his approachable, communicative, and responsive leadership style. During Bongat’s term, Naga continued to maintain its status as a highly efficient and effectively run city. Under his leadership, innovations in the use of social media have flourished to further improve the quality of governance and communications between city government and its stakeholders.

c. Transaction Costs

The following describes the transaction costs faced by various mayors of Naga in governing the city and introducing public innovations.

Information Costs

Travels and familiarity with other cities

Robredo and Bongat were well-traveled, both in the Philippines and abroad. They would often get sponsored invitations to present Naga programs. For Robredo and Bongat, a valuable aspect of those travels was the chance to see directly what other cities were doing, how they did it, and how Naga could learn and benchmark itself against it.

Bongat admitted that he gets many ideas every time he travels. For example, when he went to the U.S. and Korea in 2014, he saw how health services of the city were “downloaded” to the local village level. This provided him with the idea of establishing a hospital in the city’s outlying areas, catering to 5-6 outlying

barangays, and equipped with first aid facilities, delivery room, and round the clock nurses and doctors to attend to emergencies.

Many of Naga's innovations were not directly modeled after programs in other cities. Part of the reason is because Naga has been among the most advanced in the Philippines in terms of people's empowerment. Head of the city's IT Office pointed out how in the early 2000s Naga was the first to use ICT as a tool for engaging people in public affairs through the *i-Governance* program (Rodriguez and Min 2003). While no particular city was cited as a source of inspiration, he mentioned that this idea took shape after Robredo returned from studying public administration at Harvard University. Previously, Naga was simply using ICT to promote the city on the Internet and automating public services.

Networking Opportunities

Many of Naga's innovations tend to be generated from the mayor's close network. This includes both the internal network within city government, as well as the external network outside of the public sector. Robredo had a close network of colleagues with whom he met frequently to discuss issues facing Naga. The group mainly included social activists who later would become government officials (some of whom are still active). Some of them sparked some ideas for programs that had not existed elsewhere, such as the adoption of a Citizens' Charter and the People's Empowerment Ordinance.

Beyond the network within city government, Naga's innovations were attributed to a wider network that included, most prominently, civil society organizations (CSOs). In Robredo's era, the Productivity Improvement Program (PIP) was designed to have a feedback mechanism from the *barangays*. For this, Robredo partnered with CSOs; this eventually led to the creation of the People

Empowerment Program. Similarly, in trying to improve the lives of the urban poor, Robredo partnered with Community Organizers of the Philippine Enterprise (COPE). This eventually led to the *Kaantabay sa Kauswagan* or Partners in Development program for participatory relocation and development of low-income settlements.

Access to ICT

Naga's position as the hub of the region helped ensure that it had enough Internet bandwidth to serve the numerous universities and colleges, as well as banks and Business Process Outsourcing (BPO) companies. By 2014 Naga City has been able to attract companies such as IBM, Concentrix, Stellar, and Sutherland, which altogether employed some 3,500 young people from the city and surrounding areas.

Both Robredo and Bongat believed in the power of ICT to improve the performance of the public sector, to better engage the people in the conduction of public affairs, and to empower the people in general through access to information. Bongat was a heavy user of smartphones, where he would extensively search the web to find ideas and use Facebook to keep in touch with his citizens.

Naga's application of ICT evolved from technology-driven in the mid-1990s ('Government Computerization' to increase revenue generation), to service-driven in the late 1990s (as part of PIP to improve delivery of public services), to people-driven starting in the early 2000s ("i-Governance" to improve engagement between city government and citizens).²⁸ In the 2010s, Bongat extensively used Facebook to further intensify engagement and connected the i-Governance program with the goal of local economic development (thus the "i-LED" program).

²⁸ Interview with Reuel Oliver, 2014

Negotiation Cost

Relationship with city council

When Robredo first became mayor in 1988, he won by a very small margin: 900 votes out of 60,000 voters. Gabriel Bordado, Jr., who worked closely with Robredo in various contexts, including as campaign manager, noted that this was “too close”.²⁹ In his first term (1988-1992), only two out of 10 city council members were affiliated with Robredo, and seven were allied with the opposition. Robredo had a hard time dealing with the city council; various initiatives, such as the PIP, could not fully take-off due to funding rejections. Opposition councilors refused to approve many of his initiatives, culminating in rejection of Robredo’s 1992 budget.³⁰

However, Robredo had gradually built sympathy and credibility with citizens due to his performance and commitments. When he ran for re-election in 1992, he rallied for those who supported in him to also vote for politicians affiliated with him. It was a call for “all or nothing” (*Ubos kung ubos, gabos kung gabos*). As result, Robredo won by more than 24,000 votes. All of his team members won: congressman, vice mayor, and city councilor candidates (Kawanaka 2002).

Despite coming from the same political slate, Robredo he did not force his councilors to follow his directives. Disagreements among councilors or between councilors and the mayor were normal. For example, in 1995, it took Robredo and Councilor James Jacob more than one year to convince the rest of the city councilors to adopt the People Empowerment Ordinance.³¹ This was the ordinance where a

²⁹ Gabriel Bordado, Jr. worked with Jesse Robredo as campaign manager, city councilor, vice mayor, and various other positions.

³⁰ Interview with Gabriel Bordado, Jr., 2014

³¹ Naga City Ordinance 1995-092, available from Naga City Website (<http://naga.gov.ph/sp-matters/ordinances/ordinance-no-1995-092/>)

representative of the civil society (embodied by the Naga City People's Council) would be given one additional seat at the council, bringing the total number of councilors up to 11. Bordado recalled this was only adopted as an ordinance in 1995 after intense disagreements and threats of resignation from James Jacob.

Until today, critical debates remain present in the city council. For example, in November 2014, Bongat vetoed a council-sponsored ordinance to move the minibus terminal to a location which he considered inappropriate (as it would cause major congestion). However the mayor's veto was overridden by the council. Bongat ended the meeting by saying, 'You may decide to override my veto, but you are the one who must explain to the people, because it will cause much chaos'.³²

Vice Mayor Nelson Legacion, as presiding officer of the city council, explained that there was a good working relationship between the executive and legislative. The city council provides an 'enabling environment' for innovation by allowing the executive to implement on small scale (pilot project) before bringing it to the council for formal endorsement. The city council also tries to be innovative within its jurisdictions, with innovative programs such as student participation in council activities and empowerment of and evaluation of barangay councils.

Relationship with citizens groups

Upon winning his first term, Robredo and team built the support of the people. He showed his commitment to people's concerns, for example, by clearing Naga's commercial center from lewd shows, moving the terminal away from main city streets, and declaring war against bribes and illegal gambling. Robredo tackled these head on, and in return he faced more than 30 law suits filed against him by those who were impacted. But most importantly, he was able to send a signal to the

³² The researcher was present at this meeting as an observer.

people that he had the political will to do difficult things that had long plagued people's concern.

Bongat confirmed that the most influential voice in Naga is the civil society's. The Naga City People's Council (NCPC) is a confederation of 84 federations, associations, and organizations that has one representative sitting as a voting member of the city council.³³ One of the NCPC members, the Urban Poor Federation, is composed of 70 organizations with a total of 15,000 individual members. It was formed in 1986, right after the EDSA People Power Revolution.

The strong role of CSOs in Naga is not only because of Naga City People's Council, but also because there had been many CSOs since the past, and the city government has empowered and worked closely with them. Many of the city's politicians and key officers had a background of being a staff or a member of these CSOs. Bongat believed that the CSOs were genuinely concerned about long-term collective interests rather than short-term individual interests.

Businesses, similarly, had been a close partner of the city government, for example, through the joint organization of Bicol Business Week, which has been conducted annually since the early 2000s. The chamber of commerce also admits to have been closely consulted in the drafting of upcoming city ordinances.³⁴

Healthy leadership rivalry

Robredo emerged as a political personality in 1988 and continued to be so regardless of his political party. Between 1988 and 1995, he was affiliated with the Lakas parties. In 1998, when he was barred from the elections due to term limits,

³³ Naga City People's Council website (<https://peoplescouncil.wordpress.com/about/>)

³⁴ Interview with Nicholas B. A. Priela, 2014

Robredo shifted to the Aksyon Demokratiko Party (Kawanaka 2002). However, since the 2004 election, he was with the Liberal Party.

Robredo was initially supported by his uncle, Luis R. Villafuerte (argued to be the main political patron of Camarines Sur province), to curb the rise of the Roco clan (Kawanaka 2002). However, after becoming mayor, Robredo distanced himself from Villafuerte's patronage politics and the latter's attempt to intervene in the city's affairs. From then on, Robredo became Villafuerte's political opponent.

In the 1992 elections, Villafuerte joined forces with Roco to curb Robredo's rise, but their mayoral candidate lost substantially to Robredo by 24,000 votes (Kawanaka 2002). In 1995, Robredo practically ran unopposed, winning the mayoral race by 37,000 votes. Robredo could not run for a fourth consecutive period in 1998, so he reconciled and formed a coalition with the Rocos, and supported Sulpicio S. Roco to win the mayoral election against Villafuerte's son by almost 18,000 votes. Robredo came back to Naga politics in 2001 and his team again substantially won all the political positions in Naga City. Until today, there has not been a significant rival that could unseat Robredo's team.³⁵ When he was no longer mayor, Robredo would still campaign and endorse candidates.

Enforcement Cost

Capable civil servants

Before the time of Robredo, patronage politics ran rampant in Naga City Hall. Gabriel Bordado remembered how human resources were mismanaged, such as nurses assigned in departments in charge of gardening and planting, and

³⁵ This is confirmed by evaluating election results from Commission on Elections, where members of 'Team Naga' would win consistently by large margin.

engineers not given appropriate tools to work with. There was also low productivity: government employees would work for half a day and then relaxed.

When the Productivity Improvement Program (PIP) was introduced it was “a shocker” for many employees. An aptitude examination for civil servants was also instituted; this caused unrest and resistance, especially from “old-timers” who had been accustomed to lax working environment for many years.³⁶

Currently, however, Naga City Hall is largely manned by a “highly motivated workforce”. Many, if not most, of the current officers have worked closely with Robredo and have been accustomed to the working habits that he instilled. Bongat have also known many of the current officers since he became a city councilor in 2001. As the current leader, he has developed a culture where officers and staff do not have to follow whatever the mayor says, but are given the opportunity to think and act creatively within their jurisdictions.

Capacity building activities

Seeing the low capacity and motivation of City Hall employees in the late 1980s, Robredo introduced the PIP with two components: ‘system change’ and ‘people change’.³⁷ The former refers to the way things are done, such as computerization. The latter means change in attitude, behavior, and culture. Although difficult to achieve, Robredo believed that leadership could change systems and that systems, in turn, could change people’s attitude.

The PIP was developed based on insights from the private sector. The executive officer of the program was recruited from Johnson and Johnson. There

³⁶ Interview with Gabriel Bordado, Jr. and Melissa Sieglinde Bulaong, 2014

³⁷ Interview with Melissa Sieglinde Bulaong, 2014

were aptitude tests, visioning workshops, staff trainings, assessments, and incentives and disincentives. Under the PIP, each department would create a “productivity improvement circle” involving their stakeholders, where they would collectively devise ways to improve their performance. This led each department to develop performance standards, which would later be incorporated as part of the City Charter. Many of the principles from PIP have been institutionalized not only for the city, but for the wider Philippine government, as part of the Civil Service Commission’s standards.

An important part of capacity building was constant and close communication between the leader and staff. The Management Committee (the mayor and all department heads/officers) meets every Tuesday at 7 AM to coordinate with each other. This has been institutionalized since Robredo was mayor and still ongoing at the time of research in 2014.³⁸

Aside from having a good capacity building system for employees, having a “role model” leader was regarded with utmost importance. For example, Robredo and Bongat come in at 07:30 AM just as expected from government employees although they were not required to. Robredo was also known for being thrifty; he did not mind that the City Hall was not beautiful as long as the people were happy with its services. The same tradition has been continued by Bongat.

Incentives and disincentives

The PIP includes incentives and disincentives, many of which have been incorporated into the civil service law. In Naga, performance bonuses and “employee awards” were given not just to incentivize performance, but also for coming up with good ideas. These were something new before it was

³⁸ Interview with Huberto Ursua, 2014

institutionalized nationally. In Naga, the bonuses were not really big, sometimes just 5,000 pesos. But as noted by a head of city department, what matters more is not the size of the bonus, but the pride obtained and the attention given by the leader. He said, “A pat on the back is more important to us rather than monetary reward, especially if the pat comes from the leader.”³⁹

Sometimes appreciation comes in the form of opportunity to travel to other places. But also important is that employees understand the good impact of their work in the grander scheme of things: that the work which they did well contributes towards in the development of Naga City and its people.

Summary

The following table summarizes the presence or absence of factors related to leadership, society, and transaction costs of conducting public innovations in Naga.

**Table 15: Case Summary:
Leadership, Society, and Transaction Costs in Naga**

A. Transformational leadership	A1. Leader’s commitment	A2. Leader’s charisma	A3. Leader’s experience
	YES: Mayors worked hard, were approachable, and lived humbly in both personal and public life	YES: Mayors were able to get people to follow through example, persuasion, and integrity	YES: Mayors had experience working with large companies in Manila. They were already activists before getting into politics.
Leadership: 3/3 (YES)			
B. Progressive	B1. Favorable history	B2. Progressive local organizations	B3. Good local norms

³⁹ Interview with Alec Santos, 2014

Society	YES: Naga has been the commerce, finance, education, culture and religious hub of Bicol region. It had a history of “liberators” who freed the city.	YES: NGOs and POs had established regional offices in Naga, with support from local organizations such as Ateneo. Churches, schools, people’s organizations thrive with activities.	YES: Ateneo de Naga advocated the value of being “men for others”. There was a strong sense of community, helping others in need, and tradition of healthy political debates.
Society: 3/3 (YES)			
C1. Low Information Cost	C1.1. Familiarity with other cities	C1.2. Networking activities	C1.3. Use of ICT
	YES: Mayors were often invited to share in national & international forums	YES: Mayors were part of internal “activist” network. They partnered with CSOs to design new programs.	YES: Naga had good ICT infrastructure, related to presence of universities, banks, etc. ICT was used to improve productivity and governance.
C2. Low Negotiation Cost	C2.1. Supportive city council	C2.2. Supportive citizens groups	C2.3. Healthy leadership rivalry
	YES (not initially): All councilors came from the mayor’s political party (but not so in Robredo’s first term). There was good communication and understanding between executive & legislative.	YES: There were many active & organized citizens groups, including NGOs and business associations, with good relationship with city government	YES: Since Robredo’s second term, the mayors’ political slate had always won by a landslide. There was a rivalry dominating the province & nearby cities, but not disruptive for Naga.
C3. Low Enforcement Cost	C3.1. Capable civil servants	C3.2. Capacity building activities	C3.3. Incentives & disincentives
	YES (not initially): Many department heads and key officers were highly motivated and activist types (but not so at beginning of Robredo’s terms). Aptitude tests conducted to select staff.	YES: Flagship programs like PIP focused on ‘system change’ and ‘people change’, adopting private sector techniques. Management committee meetings take place weekly.	YES: The city conducted employee awards. Incentives such as bonuses were given for performance and new ideas.
Transaction Cost: 9/9 (YES)			

3. Dagupan City (typical case)

a. City Profile and Innovations

Dagupan City is located in the province of Pangasinan in the Ilocos Region. It is about 200 kilometers north of Manila and can be reached from the capital city in three hours by car. The city was an “independent component” city of Pangasinan and classified as “second class” in terms of LGU income. Dagupan had been one of the centers for trade, finance, media, education, and medical services in Northern Luzon and the only chartered city out of nine cities in the Ilocos Region.

The population of Dagupan was 163,676 at the 2010 census.⁴⁰ This was equivalent to about 5.9 percent of the province’s population and 3.5 percent of the region’s. However, its “daytime population” was closer to a figure of 500,000 due to the number of people from surrounding areas conducting their daily activities in the city.⁴¹ Dagupan’s average yearly population growth rate was 2.3 percent between 2000 and 2010, 0.64 percent between 1990 and 2000, and 0.79 percent between 1980 and 1990. This suggested that Dagupan had been experiencing rapid population growth in the recent past decade despite having slower growth in the previous decades.

Dagupan City occupied an area of 44.46 square kilometers on the shore of Lingayen Gulf. Seven rivers crisscrossed the city and created an abundance of brackish water bodies (ponds, swamplands, etc.), suitable for growing *bangus*

⁴⁰ National Statistical Coordination Board website: Pangasinan Province Profile (<http://www.nscb.gov.ph/activestats/psgc/province.asp?provCode=015500000&provName=PANGASINAN®Code=01®Name=REGION%20I%20%28Ilocos%20Region%29>)

⁴¹ Interview with Brian Lim, 2015

(milkfish). The city's land area was mostly allocated for agriculture, including fishponds (35.9%), residential areas (22.8%), and other water bodies (15.2%).⁴²

Dagupan prides itself as home of the "tastiest *bangus* in the world". Between 2001 and 2003, the city contributed about 16.8 percent (35,560 metric tons) of the province's total milkfish production (NSCB n.d.), and in 2013 the region contributed about one quarter (104,308 metric tons) of the country's milkfish production (Bureau of Fisheries and Aquatic Resources I 2013). Despite having significant proportion of land for agricultural purposes (22.3 percent for fishponds, 13.6 percent for cropland), Dagupan's economy was mostly dominated by the trade and services subsectors.

Innovations

Dagupan had not received any Galing Pook Awards, but the city's "My River, My Life" initiative was one of the top-23 programs assessed by Galing Pook Foundation in September 2012. The same program was also recognized as finalist in the 2011 International Awards for Liveable Communities⁴³ and the 2012 United Nations Public Service Awards (City of Dagupan 2012). "My River, My Life" responded to the deterioration of river water quality due to uncontrolled growth of fish pen operation by developing an eco-tourism destination in Dawel River, complete with rehabilitation of mangroves and river cruise to traditional fishing villages. However, the success of the program was debatable, and it was ultimately scrapped off by the subsequent (rival) mayor after the following election.

Despite not having won an award for public innovation, Dagupan had been recognized for good performance in other fields. For example, the city's Disaster Risk

⁴² Dagupan City 2013: Socio Economic Profile 2013.

⁴³ Livcom Awards Website (<http://www.livcomawards.com/2011-awards/finalists.htm>)

Reduction and Management Council was given a national award for “Best City Disaster Coordinating Council” in 2009 (Sotelo 2009), and a regional award for outstanding contributions in strengthening community resilience in 2014. Also in 2014, Dagupan was the regional winner of Presidential Award for Child-friendly Cities for the category of independent component cities. This seemed to indicate that Dagupan had been doing relatively well in terms of performance, though perhaps not specifically for innovations.

The Philippine Cities Competitiveness Ranking of 2009 ranked Dagupan as the most competitive among the country’s “emergent cities”. The 2014 Cities and Municipalities Competitiveness Index, however, ranked Dagupan at 44th (out of 136 cities) nationwide in terms of Overall Competitiveness, 37th for Government Efficiency, 46th for Economic Dynamism, and 76th for Infrastructure.

b. Society and Leadership

Society

The Lingayen Gulf, where Dagupan is located, is a strategic place that connects the rice-producing plains of Central Luzon with the South China Sea. Its geography has made Dagupan the center of trade for the Pangasinan area for many centuries. The name Dagupan came from a local word which means “where people meet”. As shown in its official seal, the city sees itself as a magnet on the crossing of a highway and a railroad. The Manila-Dagupan railway (currently non-operational) was the first stretch of railroad that the Spaniards built and operated in the 1890s, signifying the city’s geographic importance as the commercial and population hub of Northern Luzon.

Dagupan City suffered massive damage from a 7.8 Richter scale earthquake in 1990, but soon after a period of construction and economic boom followed (Basa 1997). When this research was conducted in 2014, it had remained as one of the largest centers of commerce, finance, education, religion, and healthcare in the region. The city hosted a large number of banks and financial institutions (239 in 2013⁴⁴), 15 universities and colleges, and 12 hospitals,⁴⁵ which was quite substantial for a city of 163,676 people in 2010. The student body in Dagupan's universities included some foreign students, including from other Asian and African countries, who were mainly studying nursing.⁴⁶ Dagupan has also been the seat of the Archdiocese of Lingayen-Dagupan.

Media outlets in Dagupan were also thriving and vocal. In 2013, the city hosted two TV and 14 radio broadcasting stations, three national daily newspapers and 20 local periodicals. Among the notable community newspapers based in Dagupan was the regional icon *The Sunday Punch*, which was established in 1958 by local 'martyr of press freedom' Ermin Garcia, Sr. (Basa 1997). The media in Dagupan had been known for their free and critical stance on public and political affairs. For the most part, discussions on politics were open and people freely voiced their opinions.⁴⁷ Generally community groups are seen to have strong bonds, and have helped each other especially in facing natural disasters and economic downturns.⁴⁸ Business and economic development issues tend to occupy a large part of the

⁴⁴ National Competitiveness Council Website
(<http://www.competitive.org.ph/cmindex/cityhistoricaldata.php?cityh=Dagupan%20City>)

⁴⁵ Dagupan City 2013: Socio Economic Profile 2013

⁴⁶ The researcher also met some of these students during fieldwork in Dagupan

⁴⁷ Interview with Joey Tamayo and Ryan Ravanzo, 2014

⁴⁸ Interview with Reagan Lim, 2014

attention (Ortigoza 2012), but local political scandals were also common, and often raised and discussed (Cardinoza 2014, City of Dagupan 2013).

Leadership

For the past 22 years, Dagupan City's leadership had been dominated by two prominent and opposing political sides: the Fernandezes and the Lims (Cardinoza 2013).

Al Fernandez & Family

Mr. Alipio ("Al") F. Fernandez, Jr. was city mayor for three consecutive terms (1992-2001), and was later re-elected for one more term (2007-2010). Prior to becoming mayor, he was vice mayor for three consecutive terms (1983-1992). Al Fernandez was the son of Dagupan's first mayor, and started his political career in 1972 as city councilor. He was supported by many of Dagupan's old, established clans, many of whom owned universities and schools in the city.

Between 2001 and 2007, Al Fernandez became Undersecretary of DILG and Commissioner of Immigration, until he returned to the city in 2007. Al Fernandez had a reputation for being conservative, as hinted by his slogan: 'Doing ordinary things in extraordinary ways' (City of Dagupan 2009). He was a traditional politician who was good at wooing people's support (i.e., he was against rising taxes), and prioritized basic services.

Al's family was heavily involved in politics. His son, Alvin Fernandez, served as vice mayor between 2001 and 2007 (when Al was away), and was then appointed as his city administrator in 2007-2010. Al's other son, Alfie Fernandez, was in 2014 serving his third term as city councilor, a post which he has held since 2007. His

nephew, Mike Fernandez, was also a three-term councilor (2001-2010). Mike's wife, Maybelyn dela Cruz-Fernandez, was serving her second term as councilor in 2014.

Benjie Lim & Family

In 2001, Dagupan's leadership was taken over by Mr. Benjamin ("Benjie") S. Lim, a political rival of Fernandez who served as mayor for two terms between 2001 and 2007, and another term in 2010-2013. Benjie Lim left the Dagupan political scene in 2007 to run as congressional representative, but lost. He then returned to Dagupan for the 2010 elections and was re-elected as mayor for his third term (2010-2013), defeating Al Fernandez by a narrow margin (Micua 2010). In 2013, Benjie Lim again ran for mayor, but was defeated by Ms. Belen Fernandez, who had been a close political ally of Al Fernandez.

Benjie Lim was known for his innovations and marketing skills. He was a successful retail businessman that owned shopping malls and supermarkets throughout the region under the Magic Group of Companies. He also highlighted the need to raise taxes if the city were to achieve greater things. It was during Benjie Lim's period that Dagupan proclaimed itself as the "*bangus* capital of the world" and started conducting the annual Bangus Festival in 2002. The Dagupan river cruise was also started during Benjie Lim's period. The Philippine Center for Investigative Journalism honored Benjie Lim with a "Local Government Leadership Award" as one of the six outstanding city mayors of 2003⁴⁹. He was, however, criticized by his rivals as brash and not transparent in dealing with public finance.⁵⁰

⁴⁹ Center for Local and Regional Governance 2006 (http://pcij.org/blog/wp-docs/LGLA_Awardees.pdf)

⁵⁰ Interviews with Belen Fernandez and city councilors, separately, in 2014

Benjie's son, Marc Brian C. Lim, was the current vice mayor of Dagupan (2013-2016), after previously serving as city councilor in 2010-2013, when his father was mayor. With political rivalry between the Lims and the Fernandezes, Brian viewed himself as 'leader of the city's political opposition'.⁵¹

Belen Fernandez

Currently (2013-2016) Dagupan's leadership was held by Ms. Belen Fernandez, who defeated Benjie Lim in the 2013 election. Although Belen and Al share the same family name, they were not related. They shared a political affiliation and the two previously ran on the same slate. Belen first entered politics as city councilor in 1995, then served as vice mayor for Al Fernandez in 2007-2010, and as vice mayor for Benjie Lim in 2010-2013. Belen's background was more similar to Benjie Lim than to Al Fernandez. She also owned successful shopping malls in the region under the banner of CSI Group of Companies, which made her one of the top realty tax payers in Dagupan (Basa 1997). Belen Fernandez' family and the Lim family were rivals in both business and political domains (Cardinoza 2013).

Experience in managing big business was often cited by both camps as drivers for their innovations and leadership style. Belen Fernandez would say that her private sector experience allowed her to be resourceful,⁵² while Benjie Lim would highlight how he had a long-term business proposition for Dagupan that was not based on short-term political opportunism.⁵³

⁵¹ Vice Mayor Brian Lim's official profile at Dagupan City Website (<http://dagupan.gov.ph/vice-mayor/>); accessed December 2014

⁵² Interview with Belen Fernandez, 2014

⁵³ Interview with Brian Lim, 2015

c. Transaction Costs

The following describes the transaction costs faced by various mayors of Dagupan in governing the city and introducing public innovations.

Information Cost

Travels and familiarity with other cities

Belen Fernandez and Benjie Lim were well-traveled politicians and business people. They have visited many cities, be it in the Philippines or abroad, both for political and business reasons. Some of the cities in the Philippines that provided inspiration for Benjie Lim were San Fernando City in Pampanga (for its economic growth and efficiency of business processes), Marikina City in NCR (for cleanliness), Iloilo City in Western Visayas (for river management), and Davao City (for public order and security). In terms of international cities, Lim was most impressed at how organized Singapore was. He also admitted to have learned much from Seoul and Busan in Korea, and several cities in Japan.

Similarly well-traveled, Belen Fernandez acknowledged several cities which Dagupan could model itself after, but she was particularly impressed at Singapore's success in transforming a dirty river into a clean one. That provided her with more motivation to clean the rivers in Dagupan. For her "One Barangay, One Fish" program, Belen Fernandez visited Thailand to learn how the villages conducted their "One Town, One Product" program. She believed that innovations do not have to start from scratch, and that it was more efficient to learn from the experience of other places.

Networking Opportunities

Al Fernandez, Belen Fernandez, and Benjie Lim were politically well connected and had access to national resources that could provide the city with more support. For example, Benjie Lim was head of President Fidel Ramos' campaign team in Pangasinan province in 1991, before he entered local politics. Afterwards in 2000 he was appointed as head of Duty Free Philippines, which was the country's fourth revenue earner at the time.⁵⁴ Al Fernandez, after completing his first three years as Dagupan mayor, was appointed as Undersecretary of DILG and Immigration Commissioner.

Belen Fernandez also had good contacts with important figures in the national government such as DILG Secretary Mar Roxas, as well as private companies with generous CSR support. For example, she gained access to DILG funding for improving the livelihoods of *bangus* fishers through a bottom-up budgeting program. She also worked with Procter & Gamble to develop a "waste to worth" program, where the city's waste was to be transformed to biogas. Belen also worked closely with congressional representative Gina de Venecia in convincing the President to build a fishing port in Dagupan.

Dagupan's mayors have also been actively involved in the League of Cities of the Philippines. For example, Benjie Lim was national treasurer of the LCP, and Belen Fernandez was the focal person for the LCP's Senior High School program, conducted in partnership with the Department of Education.⁵⁵

⁵⁴ Interview with Brian Lim, 2015

⁵⁵ League of Cities of the Philippines website (<http://www.lcp.org.ph/38/national-executive-board>) accessed January 2015

Access to ICT

Dagupan has had relatively favorable access to ICT, enabled by the city's good transportation and communication infrastructure. Major players in the telecommunications industry, such as PLDT, were present and have laid out the infrastructure that catered to the need of media outlets, financial, education and healthcare institutions in the city, including more recently, business process outsourcing companies.

Belen Fernandez and Benjie Lim used the internet intensively both to communicate and to search for information. Dagupan City also had no shortage of information and knowledge as it was the regional center for media companies in Ilocos Region. Dagupan has plenty of local and national chapters of television and radio stations, as well as print publications.

Negotiation Cost

Relationship with city council

The Dagupan city council has largely been dominated by the pro-Fernandez faction. Since the 2010 elections, the Fernandezes had been running under the banner of the Liberal Party, but previously they were affiliated with Lakas-CMD. In the current term (2013-2016), Belen Fernandez and her slate won six out of 10 council seats. However, Belen claimed that two out of the four opposing councilors have now joined her side. The Fernandez slate had also dominated the city council before, holding seven seats in 2010-2013 (when Benjie Lim was mayor), and nine seats in 2007-2010 (when Al Fernandez was mayor).

Political affiliation played a large role in determining how votes were cast in Dagupan city council. Benjie Lim's former city administrator lamented how the city

council in 2010-2013 (then presided by Belen Fernandez as vice mayor) blocked major policy propositions from then mayor Benjie Lim, resulting in delays and costs.⁵⁶ Currently Brian Lim, in his capacity as vice mayor, declared that the city council would not obstruct, simply for politics' sake, Fernandez' programs which they think were worthy to be conducted.⁵⁷ Belen Fernandez, however, argued that this was an excuse from Brian Lim to justify his low attendance in the office or city council meetings.⁵⁸

Relationship with citizens groups

An important constituent of the city were the fishers. Belen Fernandez claimed that during the Lim administration, small fishers were marginalized from their livelihoods: their fish pens were removed in the name of "maintaining river quality", while investors from outside the city came and put in big fish pens in their place. Her program was therefore to "bring the river back to the people" by telling the big investors to pack up and leave, while helping the smaller fishers to develop their business through a "One Barangay, One Fish" concept. Belen Fernandez tried to please businesses by ensuring that the city processed their permits as efficiently as possible. She was also planning to develop a new "growth center" for Dagupan, and promised to give tenancy priority to local businesses. But most of all, Belen supported businesses through her pledge to not introduce any new taxes. Instead, her strategy to increase city revenue was by intensifying collection of existing taxes.

Benjie Lim, on the other hand, saw himself as a 'reformer' who was free from short-term political interests and therefore he was not afraid to propose difficult solutions for the long-term benefit of the city. For example, he raised taxes

⁵⁶ Interview with Vladimir Mata, 2014

⁵⁷ Interview with Brian Lim, 2015

⁵⁸ Interview with Belen Fernandez, 2014

because the tax rate that the city was utilizing in the early-2000s was over 20 years old.⁵⁹ He also cleaned up people's fish pens in the river because of their negative impact on the environment. Some of these bold steps were not popular among the general population, but he had support from people who thought that he had sound vision and courage to go against popular sentiments.

Healthy leadership rivalry

Dagupan had been involved in bitter political rivalry between the Fernandezes and the Lims since at least the late 1990s. Fernandez supporters would accuse Benjie Lim of being brash in his steps, often taking short-cuts, and lacking transparency and accountability (City of Dagupan 2013, Sunday Punch 2014).⁶⁰ On the other hand, Lim supporters would accuse Al Fernandez of political patronage, 'making politics as his family business,' and being 'pro-status quo'.⁶¹ Al Fernandez was supported by many of the city's established clans who owned prominent educational institutions in Dagupan and strongly opposed Benjie Lim's increase of taxes.

Many of Benjie Lim's programs which could be considered 'new' were not continued in 2007-2010 when Al Fernandez was re-elected as mayor. Some of these programs were re-enacted when Benjie Lim was again mayor for 2010-2013, but many were again disbanded in the current period of Belen Fernandez. Brian Lim claimed that many of his father's programs were worthy of continuation, but he lamented that 'politics was the whole reason for halting a predecessor's good program'.⁶² A former Dagupan city administrator agreed that politics played a strong

⁵⁹ Interview with Vladimir Mata, 2014

⁶⁰ Also, interviews with Belen Fernandez and city councilors, 2014

⁶¹ Interview with Brian Lim, 2015

⁶² Interview with Brian Lim, 2015

role in how Dagupan City was run. Instead of relying on having long-term goals and proper procedures that last many years, politicians tend to come up with their own “10-point agenda” every time were elected, scrape off programs of the past leader, and create new ones with their ‘signature’.⁶³

Belen Fernandez and supporters claimed that Benjie Lim mismanaged the city’s funds such that when Belen came as mayor in 2013, the city had no money left to spend. The root of the problem, claimed Belen, was corruption and lax attitude to spending. This claim was strongly refuted by Lim’s supporters, who accused Fernandez of conducting smear campaign with support from Dagupan media which were largely in favor of the Fernandezes. Lim’s supporters challenged Belen to show the financial records to the public and prove her claims. Political rivalry continued to be present in Dagupan, with court cases having been filed involving accusations of underpriced sale of city’s assets (Jurado 2013, Sunday Punch 2014, Villamente 2014) as well as an attempted murder of a radio broadcaster which may or may not be related to the former case (Cardinoza 2014).

Enforcement Cost

Capable civil servants

Belen Fernandez argued that civil servant capacity was not really a problem, but the main issue was the leader. She claimed that if the leader was corrupt, the staff would also be corrupt. Still, she found some staff to be ‘problematic’ that she had to recruit new ones to replace those who had ‘issues’ in following her directions.⁶⁴

⁶³ Interview with Vladimir Mata, 2014

⁶⁴ Interview with Belen Fernandez, 2014

Brian Lim believed that capacity of Dagupan's government staff was typical of that found in a developing country context, where people live close to poverty and were generally struggling to make ends meet. In general he considered Dagupan staff to be accustomed to slow pace and inefficient work. However, he also agreed that staff's performance largely depends on what the leader/mayor demands of them.

Capacity building activities

Both Benjie Lim and Belen Fernandez mobilized efforts at equipping staff with skills to improve their performance. During Benjie Lim's term, trainings were given in relation to the city's new branding programs (Bangus Festival) and efforts to make Dagupan into a business-friendly convention center. Other capacity building programs were conducted in relation to a major computerization of the city hall in 2003 and effort to ISO-certify the city's 'One Stop Shop'.

Belen Fernandez spent much effort to make her staff aware and accustomed to the way she works and her expectations, so that they could match her work ethic. For example, early in her tenure as mayor, Belen worked with her staff until 2AM for a couple of times, simply to let them know that there is now a new standard. She also gave "coaching sessions" to different departments, usually three departments at a time, before she moved on to others. In these coaching sessions, she met with their key staff intensively, told them her objectives, and discussed their issues. Little by little, she admitted that the staff was coping with her new style. "Now they follow, and they are good already." She also claimed that graft and corruption has decreased substantially.

Incentives and disincentives

Belen Fernandez imposed a strict leadership style, where she would threaten to fire her staff if they refused to cooperate or continue to be corrupt for six months after she gave the chance to improve. She claimed that she could fire civil servants provided that there was a violation. However, she admitted that she had not fired anybody yet. Instead of firing, Belen chose to transfer some of her “difficult” staffs to less prominent roles in another office. At the same time, she was also recruiting new staff to lead the vacated post, sometimes by transferring promising candidates from other departments.

Not much response was garnered on the incentives and disincentives question. Brian Lim admitted that his father gave bonuses to well-performing staff. Belen Fernandez, however, highlighted how the city under her leadership was able to generate substantial savings, despite the initial condition of “bankruptcy”, such that she was able to pay 14th month salary bonus. The bonus, however, was given for all employees regardless of performance.

Summary

The following table summarizes the presence or absence of factors related to leadership, society, and transaction costs of conducting public innovations in Dagupan.

**Table 16: Case Summary:
Leadership, Society, and Transaction Costs in Dagupan**

A. Transform-ational leadership	A1. Leader’s commitment	A2. Leader’s charisma	A3. Leader’s experience
	YES: Belen Fernandez worked until late. Benjie Lim took risk by conducting unpopular policies. Both had nothing to lose.	NOT ALWAYS: Leaders had strong charisma, but their influence tend to be limited to their own supporters.	YES: Belen Fernandez & Benjie Lim ran successful retail businesses. Al Fernandez was more a traditional politician.

Leadership: 2/3 (YES)			
B. Progressive Society	B1. Favorable history	B2. Progressive local organizations	B3. Good local norms
	YES: Dagupan has been the commerce, finance, education, religion, and healthcare hub of Pangasinan & Ilocos. It is a meeting place.	YES: Presence of strong and vocal media, universities, and church groups.	NOT ALWAYS: People had higher demands for business/ economic development issues, but less so for government/ public service issues.
Society: 2/3 (YES)			
C1. Low Information Cost	C1.1. Familiarity with other cities	C1.2. Networking activities	C1.3. Use of ICT
	YES: Mayors were well-travelled politicians and business owners. They had good knowledge of other cities as reference for Dagupan.	YES: Mayors were well Connected with national government officials. They also participated actively in the League of Cities.	YES: Dagupan was hub of media outlets, and has laid out infrastructure to support media and BPO companies. Mayors used ICT to find ideas.
C2. Low Negotiation Cost	C2.1. Supportive city council	C2.2. Supportive citizens groups	C2.3. Healthy leadership rivalry
	NOT ALWAYS: Most city councilors come from the Fernandez' political faction. Benjie Lim did not have full support when he was mayor.	NOT ALWAYS: Citizens were largely divided in their support for either political faction.	NO: The Lims and the Fernandezes were rivals both in business and politics. Each faction ruled one after the other, cancelling programs of the previous ruler.
C3. Low Enforcement Cost	C3.1. Capable civil servants	C3.2. Capacity building activities	C3.3. Incentives & disincentives
	NOT ALWAYS: Fernandez thought government staff simply followed leader's style. Lim thinks civil servants were accustomed to slow pace & inefficiency.	YES: Fernandez oriented her departments in batches. Benjie Lim trained staff for various city branding & computerization programs.	NOT ALWAYS: Lim gave some performance bonuses. Belen Fernandez would threaten to fire staff but had not done so. The '14 th month salary' is paid to all employees.
Transaction Cost: 4/9 (NO)			

4. Marikina City (innovative case)

a. City Profile and Innovations

Marikina City is one of the 17 LGUs that make up the Philippines' National Capital Region (NCR). The city is located on the easternmost part of the NCR, bordering Rizal Province to its east, about 16 kilometers away from Manila City. Marikina is considered a "highly urbanized" city and is rated "first class" in terms of LGU income. The city is also nicknamed "the shoe capital of the Philippines" due to large presence of shoe-making industries, especially throughout most of the 20th Century until the late 1980s.

Marikina had a population of 424,150 based on the 2010 census – or equivalent to about 3.58 percent of the NCR's population (11,855,975 in 2010) (National Statistics Office 2012). There were 91,414 households and 222,787 registered voters in 2010, spread out over two congressional districts and 16 barangays. The average yearly population growth rate between 2000 and 2010 was 0.81 percent per annum, between 1990 and 2000 was 2.34 percent per annum, and between 1980 and 1990 was 4.66 percent⁶⁵. This suggests that Marikina has had its fastest population growth periods behind.

The city occupies an area of 21.52 square kilometers on the foothills of Sierra Madre Mountains. The Marikina River cuts through the city, bringing fresh water from the mountains through a number of LGUs⁶⁶ until it merges with Pasig River, from which the water is channeled into Manila Bay and Laguna de Bay. Before

⁶⁵ The city's population was 391,170 in 2000, 310,227 in 1990, and 211,613 in 1980.

⁶⁶ The Marikina River flows through San Mateo Municipality, Marikina City, Quezon City, and Pasig City before it merges with the larger Pasig River.

the time of roads and automobiles, Marikina River was one of the most important means of transportation in the region. Nowadays the river serves mainly as a canal which sometimes gets flooded, especially during monsoon seasons. One of the worst recent disasters related to Marikina River flooding occurred in September 2009, when tropical storm Ondoy (Ketsana) caused water levels to rise by 6.1 meters, and left 464 people dead (Rappler 2013).

Innovations

Since the 1990s, Marikina has been recognized for its government’s outstanding performance and innovations, and has become one of the most awarded LGUs in the country. From the Galing Pook Foundation alone, Marikina has won nine awards to date (see Table 17), one of which was an “Award for Continuing Excellence” (ACE). Many of Marikina’s awards were related to infrastructure development, environmental management, and change in people’s behavior.

Table 17: Galing Pook Awards for Marikina City

Year	Name of Program	Description
1995	Save the Marikina River	Providing a 96-meter easement for the river, relocating the squatters, and turning the riverbanks into a flood control zone cum recreation area
1997	Red Sidewalk (“Discipline in the Sidewalk”)	Cleaning the sidewalks from encroachment of personal use; bringing public space back into the public domain
1998	Squatter-free Marikina	Relocating 7,000 squatter families to resettlement sites, where each family was given serviced lots with low mortgage rates
1998	Barangay Talyer	Communal shops at the barangay level where various tools are stored and can be used for free by residents
2003	Award for Continuing Excellence	Given to LGUs that have previously won three awards and have demonstrated that the awarded programs have been sustained and improved over the years and created a “culture of excellence” within the LGU
2005	Bicycle-friendly City	Building a network of 66 kilometers of dedicated bicycle lanes. The project started in 1999 and by 2005,

Year	Name of Program	Description
		29 kilometers (44%) have been completed.
2007	Eco Savers	School children bring recyclable waste to school to earn points, which can be exchanged with school supplies or grocery items. This program has been replicated in numerous cities nationally and internationally.
2008	Centralized Warehousing Management System	A warehouse where all materials and supplies needed by city departments and affiliated institutions are consolidated, purchased, stored, and distributed according to need
2009	Clean Food and Water Laboratory	A laboratory that helps ensure safety, health and sanitation standards in the public market by regularly conducting tests on water and food being sold there

Source: Galing Pook Foundation (various years)

Aside from the Galing Pook Awards, Marikina has received numerous other awards from the mid-1990s until today. These will not be named one by one, but some of the notable ones include: Cleanest and Greenest Local Government Unit, Best Public Market, Most Outstanding Police Station, Best Website, and “Most Outstanding LGU” in various fields, including public health, population management, environmental management, disaster risk management, business-friendliness, and child-friendliness. Marikina has also won international awards and recognitions, such as those given by the World Health Organization for Healthy Cities, and by Microsoft Asia Pacific for Wireless Integrated Network, both in 2008. The city’s Eco Savers Program, which won the GP Award in 2007, became a ‘best practice’ which was piloted in a number of other Southeast Asian cities by DELGOSEA.⁶⁷

The 2014 Cities and Municipalities Competitiveness Index identified Marikina as the fifth most competitive city in the Philippines, behind only Makati City, Cagayan de Oro, Naga City, and Davao City. Marikina is ranked third nationwide

⁶⁷ Eco Savers Profile at DELGOSEA website (<http://delgosea.eu/cms/Best-Practices/Thematic-Area-3-Inclusive-Urban-Public-Services/12-Marikina-Eco-Savers-Project>); accessed March 2015

in terms of Infrastructure, 16th in terms of Government Efficiency, and 19th in terms of Economic Dynamism. Ten years prior in 2004, Marikina was ranked number one in overall competitiveness.

b. Society and Leadership

Society

The founding of Marikina can be traced back to 1630, when the Spaniards established a mission and settlement called Mariquina alongside a river, not far from Manila. One of the city's defining historical moments happened in the 1880s, when a local landowner tore apart a pair of imported shoes and taught himself and others to make shoes. This started the growth of family-owned shoe manufacturers in Marikina. By the 1970s, 70 percent of the shoes circulating in the domestic market, or about 33 million pairs a year, were made in Marikina (Tanchuco 2005).

The tide turned and by 2001 cheaper imported shoes from China made up about 80% of the domestic market. Marikina's footwear cluster is now only a fraction of what it once was, but it still makes up a substantial proportion of what is left of the industry. In 2001, more than 80 percent of the country's 2,148 registered footwear manufacturing companies remain located in the NCR and the Southern Tagalog region. Within the NCR, 73 percent of the shoe manufacturing firms and 61 percent of their employment were found in Marikina (Tanchuco 2005).

With the decline of the shoe industry many jobs were lost. Meanwhile, people from other places in the Philippines kept migrating into Metro Manila. In the 1980s, Marikina was mostly regarded as a "murky, low-profile town" (Galing Pook Foundation 2003) that was "muddy" and had a high crime rate (Dalizon 2014). The streets and sidewalks were unruly, and the river was polluted and lined with

squatter settlements. Squatters made up about thirty percent of the city's population in the early 1990s (Ishii, Hossain, and Rees 2007).

A series of transformations started in the 1990s and within the next two decades Marikina changed its image. It is now commonly viewed as a multi-award winning city known for discipline, cleanliness, good infrastructure, good governance, and public innovations. It became a city where citizens proudly see themselves as a “Little Singapore”, where children keep candy wraps in their pockets until they find a rubbish bin (Siao 2013), and those who did not separate their trash pay a hefty fine or serve time doing community service.⁶⁸ City hall employees changed from coming to the office in torn jeans and undershirts to wearing Salvation Army-style uniforms. Marikina's citizens changed from being apathetic individuals to concerned civil society groups, where almost all sectors and interests of the society are organized as associations that are formally involved in the governing of the city.

Leadership

Marikina's transformation was commonly attributed to the leadership of Mr. Bayani F. Fernando (BF) between 1992 and 2001. BF's leadership was followed by that of his wife, Mrs. Maria Lourdes Carlos-Fernando (MCF), who served the subsequent three terms (2001-2010), and then by Mr. Del R. De Guzman, the current mayor (2010-2016). De Guzman had close working relationship with both past mayors, serving as vice mayor for BF in 1992-2001, and as congressman representing the city when MCF was mayor in 2001-2010. Although each mayor had a unique leadership style, it can be argued that Marikina has had stable leadership for 23 years (1992-2014), where good programs from the preceding period were further continued and improved.

⁶⁸ This was observed by the researcher

Bayani F. Fernando

BF was an engineer and owner of BF Corporation, an AAA-rated general contractor that was involved in many high-profile projects throughout the Philippines, including 39-storey Rufino Tower and 50-storey PBCom Tower. He is the son of Mr. Gil Fernando, an important figure in Marikina's history who served as mayor in the 1950s. BF was already successful at his business when he won the 1992 mayoral election. Interviews confirmed that he was known for hard-working, disciplined, and "strong" (some would say "iron-handed") personal character that typifies many construction project managers. His campaign slogans were "Marikina needs an engineer" and "BF gets it done!" which signaled many citizens' frustration with the lax way the city was run. After completing three terms as mayor, BF became chairman of Metropolitan Manila Development Authority (MMDA) in 2002-2009. He then ran as the Philippines' vice presidential candidate in 2010⁶⁹, and subsequently went out of politics.

Marides Carlos Fernando

MCF was the daughter of a local business tycoon, with qualifications in business management from UP and Cornell University. When BF was mayor of Marikina in 1992-2001, MCF was the vice president for administration and finance for BF Corporation.⁷⁰ She ran the city as one would run a corporation. A sign in Marikina City Hall, which she put, reads: "We manage our city like a private corporation... One where there are stakeholders, workers and customers. We treat them as our clients whom we want not only to satisfy, but also to delight". MCF considered her leadership period as continuation and development of what her

⁶⁹ BF joined forces with Senator Richard Gordon, former mayor of Olongapo City, to run as vice president and president of the Philippines in the 2010 general election. They both lost.

⁷⁰ City Mayors website (<http://www.citymayors.com/mayors/marikina-mayor.html>)

predecessor has established. Her campaign slogan was “BF built you a house; MCF will make it a home”. During her time Marikina was dubbed as “the city in the pink of health” due to her heavy emphasis on public health issues, and the city formally adopted a vision to be a ‘Little Singapore’ (Alquitran 2006).

Del De Guzman

De Guzman has been a politician since he was elected as Marikina’s municipal councilor in 1988. He has never lost any elections that he participated in, be it as vice mayor for BF (1992-2001), Marikina’ representative in congress (2001-2010), or mayor (so far, two terms between 2010-now). De Guzman parted ways with the Fernandos in 2010, when he decided to join the Liberal Party, while BF ran as vice presidential candidate under a different political banner. De Guzman largely continued and built on the programs and achievements of past leaders. But he also brought a new leadership style that was more consultative and participatory. He also put more emphasis on revitalization of the shoe industry.

c. Transaction Costs

The following describes the transaction costs faced by various mayors of Marikina in governing the city and introducing public innovations.

Information Cost

Travels and familiarity with other cities

BF and MCF traveled extensively and brought inspiration from other cities to Marikina in various ways. The city administrator, who worked with BF and MCF, Mr. Melvin Cruz, remembered how every time they traveled, they would explore the city and afterwards sit down and discuss: “What makes this city better than ours?” and “How can this be implemented in Marikina?” Everything would be written down and

briefed with other staff at the city hall during their weekly Monday afternoon meeting. During these trips, BF would always bring a camera, a clipboard with pencil and paper, and measuring tape. They would take pictures, measure items, and draw them. At one point, Cruz remembered how they were chased by police officers in Hong Kong because they tried to lift the flood drain cover so they could measure its thickness.⁷¹

BF found a close model for Marikina in the former U.S. Naval Base at Subic Bay, about 2.5-hour drive away. Recently converted into a Freeport zone in 1992, Subic was clean and orderly, and almost everything was up to “American standards”. BF wanted to ensure that Marikina public servants had the same standard as he does, so he brought many public officers there in batches. These include elected officials and career civil servants, from heads of departments to street sweepers. BF led the trip, delivered lectures himself, and showed everyone what he meant by “clean” and “orderly” through real-life examples.

After achieving Subic Bay standards, Marikina’s benchmark was raised during the time of MCF with a vision of “Marikina as a little Singapore”. Similar to what BF did with Subic Bay, MCF brought many staff to Singapore in batches (but not the sweepers).

Marikina leaders were often invited to speak in seminars and conferences. This provides them with opportunity to hear and learn from other cities. Some of Marikina’s heads of departments admit that they replicated programs which they saw in other cities, but with some adjustments. For example, the city’s multi award-

⁷¹ Interview with Melvin Cruz, 2014

winning Eco Savers program was modeled after a similar program in a town in Thailand.⁷²

Networking Opportunities

During the period of BF, many of Marikina's innovations came from the ideas and initiatives of the mayor. However, since the time of MCF, the city has relied on a larger network to provide inputs and inspirations. These include city hall employees, Marikina citizens, other city government leaders, and national government figures.

In terms of internal networks, De Guzman conducts regular weekly meetings every Monday afternoon with his key staff, mostly head of departments, to discuss development progress as well as seek feedback on new ideas. External networks also mattered in the development of new programs. In terms of domestic city-to-city networks, Marikina has been actively involved in the League of Cities of the Philippines (LCP), where De Guzman was currently the secretary general,⁷³ and MCF was deputy secretary general.⁷⁴ In terms of international networks, Marikina was also actively involved in Cities Alliance and CityNet.

Access to ICT

Being located in Metro Manila, especially close to two large campuses (UP Diliman and Ateneo de Manila), as well as the GMA Tower, allowed the city to experience among the best access to ICT in the country. In 2006, Nasdaq-listed ICT Group, Inc. established a call center employing 800 people in Marikina, which was its

⁷² Interview with Gloria Buenaventura, 2014; Ms. Buenaventura was City Environment Officer who initiated the Eco Savers program in Marikina

⁷³ League of Cities of the Philippines Website (<http://www.lcp.org.ph/38/national-executive-board>)

⁷⁴ City Mayors Website (<http://www.citymayors.com/mayors/marikina-mayor.html>)

third site in Metro Manila after more high profile sites such as Makati City and Ortigas Center (Estavillo 2006).

Marikina's mayors have placed high importance on the use of ICT. For example, MCF connected all city government offices (including barangay offices) within a Local Area Network. Developing an ICT-based knowledge center and improving e-government were among two of MCF's key programs (Balaba 2006). Currently the city has a flood management system where real-time water levels in different locations of Marikina River are monitored.

Marikina officials actively used the Internet to search for information. De Guzman would browse the Internet to review programs from other cities which share similar conditions. Also, the city's Environmental Management Office would browse the U.S. Environmental Protection Agency's website to see programs that were being implemented in various American states. Other department heads admitted that they were often pushed by MCF to "think out of the box," and to benchmark themselves against best practices in other Asian or world cities. This typically led the departments to conduct online research.

Negotiation Cost

Relationship with city council

When BF won his first mayoral election in 1992, the majority of city councilors were not politically aligned with him. His first two years was a challenge because the city council was not supportive. But since Marikina at the time did not have money to build anything significant, there was no real need to get funding approvals from the council. BF's first signature programs were efforts to clean the city from unruly behavior, which required more political-will rather than funding

(more about this below). After winning the trust of the people, between 1995 and 2000 the Fernandos and their slate consistently won elections by a landslide and tipped the council's political composition in their favor. Out of 20 elected positions, at most only 2 or 3 would not be affiliated with BF and MCF.

After the era of the Fernandos, De Guzman (2010-2016) and his slate – mostly composed of politicians with a history of affiliation with BF and MCF – continued to dominate the council. In 2010-2013, nine out of 16 elected councilors sided with De Guzman, but over time he was able to win more support and currently only one councilor is not politically aligned with him.⁷⁵

De Guzman explained that there has been a covenant agreed before election among politicians from his slate, that they will support each other in programs that bring benefits to the people. Every Monday after the flag-raising ceremony, the mayor would have a breakfast meeting with all city councilors in his meeting room. De Guzman understood the issues facing councilors because he used to be a city councilor and a vice mayor who presided over the council.

Marikina's innovativeness has expanded beyond city hall into the city council.⁷⁶ One of the council's latest innovations is paperless meeting, where every councilor would have a tablet and all the files related to the meeting were pre-loaded. This was admittedly driven by the need to save money for papers and printing, but also due to the limited space for filing cabinets. The council also streams their meetings online, and they have a legislative tracking system, which is an online database of ordinances and resolutions in their draft and final forms.

⁷⁵ Interview with Joseph Banzon, 2014

⁷⁶ Interview with Reginald Tamayo, 2014

Relationship with citizens groups

During BF's era, the relationship between the mayor and citizens were characterized by notions of a benevolent autocrat. One of BF's earliest programs was "Discipline in the Sidewalk". Back then, Marikina's sidewalks were not walkable as people put things that they did not want in their homes there: clothes lines, broken vehicles, sheds, etc. BF dismantled these and did not repave the sidewalks after the clean-up because the city did not have money to do so (Gonzalez 2009).⁷⁷ Interestingly, BF won citizens' votes by disciplining them. This was counter-intuitive for most politicians.

BF and his team faced much opposition initially. The city administrator admitted that he would find the tires of his car punctured and the paint damaged by solvents. However, ultimately people got used to the changes. One of the department heads attributed BF's success to the fact that he always delivered his promises. Even if the services that he delivered were basic, people had longed to see basic things working properly that they were impressed. To further facilitate his relationship with citizens, BF instructed community groups to organize themselves into associations. The latter would register with the city's community relations office and be invited to various consultative meetings.

After the era of BF, there has been a more open, consultative relationship between city hall and citizens groups. De Guzman views Marikeños mature enough to be involved meaningfully in different councils, and to give inputs directly to him and other government officials. He also believes that there is a friendly working relationship between the government and the business sector. One of De Guzman's

⁷⁷ By not repaving the sidewalk, BF brought a stronger message that the cleaning was not done because a repaving project was being prepared, but it was wrong to put personal belongings in public domain (Interview with Melvin Cruz, 2014).

campaign slogans, seemingly to distinguish himself from his predecessors, was “Tao Naman”, which means “The people’s turn”. Every Thursday, De Guzman would conduct “People’s Day”, where citizens would come in and line up to see the Mayor. But this has actually started since the period of MCF.

One sector that recently became the city’s focus is the shoe industry, with the set-up of Marikina Shoe Industry Council during De Guzman’s period. Marikina tries to revive the shoe industry by linking production with an education support program, where the city gave 35,000 needy students a pair of leather shoes, made by local shoe manufacturers. Thirty small and micro shoe manufacturers participated in the program, each producing 1,000-1,200 pairs.⁷⁸ The business chamber appreciated the support from the city government, but preferred the city to build a trade center and brand incubator for made-to-order shoes. In general, business practitioners found the mayor to be quite accessible.⁷⁹

Healthy leadership rivalry

Since BF ran for re-election in 1995, he and his successors have not had any meaningful rival in the local political scene. The couple established a local political vehicle called the Kabayani Party, which was affiliated with Lakas-CMD at the national level. BF and MCF encouraged Marikeños to vote for them and other candidates from the Kabayani Party so they could win by a landslide. One of their slogans was “landslide victory to avoid being cheated!” The Fernandos were also supported by effective and well-funded campaign machinery.

In the 2010 election MCF was no longer eligible to run as mayor while BF joined forces with Senator Richard Gordon to run for vice president and president,

⁷⁸ Interview with Lourdes de la Paz, 2014

⁷⁹ Interview with Roger S. Py, 2014

respectively, under the newly established Bagumbayan-VNP party. The couple adopted this party as their new political vehicle in 2010, and rested their support on Dr. Marion Andres (MCF's past vice mayor), to run as the next mayor. At the same time, De Guzman chose to side with the Liberal Party (LP), led by Benigno S. Aquino, III (who eventually became president). This led to a break-up among affiliates of the Kabayani party, with some siding with De Guzman and others with Andres.⁸⁰ Eventually BF lost his 2010 political bets, both at the national level as well as in Marikina. De Guzman won the mayoral election by a landslide, winning 66% of the votes. The LP also won the vice mayor and two congressman positions, as well as nine out of 16 city council seats.

Following their loss in the 2010 election, BF and MCF returned to managing their company, and the Kabayani party eventually subsided. Meanwhile, De Guzman won the subsequent 2013 election by winning 96% of the votes, and his slate of LP candidates took all but one city councilor position. After the short political tension between De Guzman and Andres in 2010, things went back to normal.

Enforcement Cost

Capable civil servants

Back in 1992, the capacity of city hall employees reflected much of the problems that the city was facing. A lax atmosphere dominated, where civil servants would arrive late in 'ripped jeans and undershirts'.⁸¹ But over time, with the change of culture instilled by the three mayors, there has been much improvement. Currently many donor agencies and companies' CSR programs liked to work with

⁸⁰ Interview with Melvin Cruz, 2014

⁸¹ Interview with Melvin Cruz & Gloria Buenaventura, 2014

Marikina on 'pilot projects' because the city offered a high chance of successful implementation.⁸²

Many of Marikina's current department heads have been with the city since the era of BF and MCF. They had the experience and skills, and most importantly, they know the rationale behind most of Marikina's current programs. The city administrator noted that BF and MCF have instituted many of their past initiatives, such that 80% of current programs are those which have started during their era.

Staff capacity, however, still remains an issue at the middle and lower level civil servants. Two heads of departments admitted that they were not happy with the capacity of their staff. Being located in the NCR, Marikina competes with many large organizations and companies to attract the best local talents.

Capacity building activities

To improve staff capacity, Marikina's heads of departments were keen on sending their staff to attend trainings. De Guzman, the city administrator, as well as department heads believed in trainings and encouraged their staff to look for seminars, short courses, or other ways to build their capacity.

Capacity building activities also occurred through direct interaction between staff and leader. BF was noted as someone who changed the habits and mind-set of his staff. As admitted by one department head, BF always kept his employees on their toes. By working with him, there was no alternative but to take one's work seriously. He scolded and demanded his staff to complete their assignments and was always checking on their work.⁸³

⁸² Interview with Gloria Buenaventura, 2014

⁸³ Interviews with Gloria Buenaventura and Lourdes de la Paz, 2014

BF also excelled in class settings. Many of Marikina's public servants were literally trained by BF. He consistently held weekly meetings with key staff every Monday afternoon, and would reschedule other appointments to be present at these. Consequently, all department heads were also expected to be there, otherwise they would get a memo. This tradition has been continued until now.

Until now, much of BF's leadership style is continued by the department heads. Perhaps not his "iron-handed" ways, but a style that keeps employees on their toes, such as making sure everyone has a job for the day, conducting regular orientations of standard procedures, and in-house trainings done by department heads for the staff.

Incentives and Disincentives

Since the time of BF, Marikina has used incentive and disincentive systems to encourage good performance. Every year the city hall gives out bonuses, beyond than that provided by law, as rewards for productivity and meeting work targets. The bonus would be decided after going through a system of quarterly rating of all employees done by department heads. After completing the ratings, department heads would submit their results to be assessed by the city administrator's office.⁸⁴

Every year, casual employees who occupied the bottom 2% as identified by ratings would have their contracts terminated, and the city would "bring fresh blood" into the system. For regular employees, the disincentive would be to receive fewer bonuses than what they received the previous year, or being stagnant in their career. On the other hand, those who performed well would get a bonus equivalent to one month's salary or more.

⁸⁴ Interview with Melvin Cruz and Gloria Buenaventura, 2014

Summary

The following table summarizes the presence or absence of factors related to leadership, society, and transaction costs of conducting public innovations in Marikina.

**Table 18: Case Summary:
Leadership, Society, and Transaction Costs in Marikina**

A. Transformational leadership	A1. Leader's commitment	A2. Leader's charisma	A3. Leader's experience
	YES: BF was willing to be unpopular with his disciplinarian programs. This was continued with more approachable and responsive leadership.	YES: BF was able to get people to follow through strong character, MCF & De Guzman through persuasion	YES: BF & MCF were leading an AAA-rated construction company. De Guzman is a career politician with experience in national congress.
Leadership: 3/3 (YES)			
B. Progressive Society	B1. Favorable history	B2. Progressive local organizations	B3. Good local norms
	NO: Marikina in the 1980s used to be a far-flung suburb associated with crime.	YES (not initially): Communities have become organized based on interest groups and participate in governing affairs.	YES (not initially): Citizens are known for discipline, and have come to expect high performance and quality services from the public sector.
Society: 2/3 (YES)			
C1. Low Information Cost	C1.1. Familiarity with other cities	C1.2. Networking activities	C1.3. Use of ICT
	YES: BF, MCF & De Guzman have travelled extensively. BF made conscious effort to brainstorm lessons after travel.	YES: Marikina leaders were active and held key positions in national and international city networks. They were also well connected politically.	YES: Mayors & heads of departments actively use internet to search for best practices. ICT is intensively used as part of the city's management.
C2. Low Negotiation	C2.1. Supportive city council	C2.2. Supportive citizens groups	C2.3. Healthy leadership rivalry

Cost	YES (not initially): Most city councilors come from mayor's political party. There was good communication between executive & legislative. (These were not the case in BF's first term)	YES (not initially): People supported BF's disciplinarian programs despite initial grudges. De Guzman gained support by being supportive to interest groups.	YES: BF, MCF, and De Guzman did not face meaningful rival. After BF & MCF stepped down, some rivalry appeared but not damaging.
C3. Low Enforcement Cost	C3.1. Capable civil servants	C3.2. Capacity building activities	C3.3. Incentives & disincentives
	YES (not initially): Many department heads have held the job since BF era. Donors like to work with Marikina due to high chance of success.	YES: Marikina conducts & sends staff to attend trainings. Mayor & department heads would also train staff intensively.	YES: Quarterly rating of employees. Bonuses for productivity. Contract termination for non-performance.
Transaction Cost: 9/9 (YES)			

5. Malabon City (typical case)

a. City Profile and Innovations

Malabon City is one of the 17 LGUs that make up the Philippines' National Capital Region (NCR). The city is located on the northwestern-most part of the NCR, bounded by the cities of Navotas, Caloocan, and Valenzuela, as well as Bulacan province. It was considered a "highly urbanized" city and is rated "first class" in terms of LGU income. Malabon does not have a specific moniker, except that some parts of the city had been sarcastically referred to as "Local Venice" due to being constantly flooded.

Malabon's population was 353,337 at the 2010 census, or equivalent to 2.98 percent of the NCR's.⁸⁵ The population of the city grew annually by an average of 3.90 percent between 1980 and 1990, 1.92 percent between 1990 and 2000, and 0.42 percent between 2000 and 2010. This seems to indicate that Malabon has seen its fastest periods of population growth behind.

The city is located near the shores of Manila Bay, only about three kilometers away from the Manila port, on the flat and low-lying confluence of Tullahan River and Polo River. Malabon is close to the sea, but it is not a "fishing village ". Instead, the Tañong fish market and other *consignación* areas along the Malabon River have made the city as one of the fish trading hubs in the NCR.

For several decades, Malabon's economy and employment had been largely generated from manufacturing and retail activities (Magno 1993).⁸⁶ Its 19.77 square

⁸⁵ National Statistical Coordination Board Website
(<http://www.nscb.gov.ph/activestats/psgc/municipality.asp?muncode=137502000®code=13&provcode=75>)

⁸⁶ Also: Malabon City Facts & Figures 2012

kilometers area is divided into 21 barangays, and allocated mostly for residential (38 percent), industrial (32 percent), and commercial (19 percent) uses.⁸⁷ Large proportions of the land are below sea level (fish ponds and ex-fish ponds) which also serve as rainwater catchment area. However, many fish ponds have been reclaimed as formal and informal housing areas. Malabon experiences heavy flooding during the monsoon seasons.

Innovations

Malabon has not received the Galing Pook award or other notable national and international recognitions. However, several individuals from city government have won regional awards for good performance, including the city's fire marshal (2005 and 2007), a barangay nutrition scholar (2014), and manager of the employment office (2015). In 2014, one of Malabon's local advisory committees was recognized as "most responsive" in terms of compliance with Department of Social Welfare and Development's directives.⁸⁸ Current mayor, Antolin ("Len-len") A. Oreta, III, was acknowledged in 2014 as one among five *Kaya Natin* champions of good governance and ethical leadership (Kaya Natin 2014).

When asked for some of the city's innovative programs, Oreta pointed towards the Community-based Solar Lighting program, where chlorinated water in plastic bottles were used to retain solar power to light up some areas without electricity. The program was conducted in collaboration with MyShelter Foundation, where Malabon was one of many cities worldwide that implemented it in 2014.⁸⁹

⁸⁷ Malabon City Website – Physical Features
(<http://malabon.gov.ph/physical-features/#sthash.GofTUBOX.dpuf>)

⁸⁸ Department of Social Welfare and Development website
(<http://www.ncr.dswd.gov.ph/2014/03/pantawid-pamilya-local-advisory-committee-in-malabon-city-receives-award-from-dilg/>); accessed February 2015

⁸⁹ Liter of Light Website (<http://literoflight.org/about-us/>); accessed January 2015

This program was diminutive in scale and simply a direct implementation of an NGO-initiated program.

In terms of competitiveness, Malabon City was ranked 48th out of 136 cities on the 2014 Cities and Municipalities Competitiveness Index. A breakdown of the overall competitiveness found that Malabon was ranked 24th for Economic Dynamism, 30th for Infrastructure and 88th for Government Efficiency.

b. Society and Leadership

Society

As one of the few areas in the NCR located on the confluence of several rivers, Malabon has had a long history. By the 19th century, Malabon was already an important processing and trading hub for grains and other produce coming from the farmlands of Pampanga and Bulacan. Along with sugar mills and tobacco factories, fishponds were also a significant generator of the city's economy. Its people were considered 'industrious' and 'intelligent' (Marcelo 2004).⁹⁰ Grand heritage houses from the late 19th and early 20th century currently still stands in Malabon as testimony of the city's past glory.

For Malabon's local elites, ownership of land, including those used as factories and fish ponds, has been an important source of political power. However, during the martial law regime of the 1970s, many fishponds were expropriated for a reclamation project to build low-cost housing (Magno 1993). The project, however, ignored the ecological role of Malabon fishponds as water catchment area, and resulted in worsening flooding problems (ESSC n.d.).

⁹⁰ The book has a quote from Don Isabelo de Los Reyes, 'father of Filipino socialism', which said: "If only the Filipinos were as industrious and intelligent as the people of Malabon! The economic triumph of these islands would be assured!" (p.76)

The formal reclamation of fishponds in Malabon started parallel, private initiatives to do the same, where crowded units lacking services were illegally built by crime syndicates and rented out to recent migrants. After the People Power revolution of 1986, many poor migrants from remote provinces came to Manila in search of livelihoods. Malabon was one of the places near the harbor where shanty towns were erected to accommodate their housing demand. The city's transformation was described as such: "Its waters teeming with fish have been replaced by slums teeming with hungry people" who are attractive to local politicians as potential voters (Magno 1993). The local syndicates have opposed various programs of the city government to regularize illegal housing.

Meanwhile, decades of neglect have brought into Malabon high crime rate (murder, robbery, kidnapping) related to illegal businesses (drug gangs, cockfight gambling, money lending, squatter syndicates) that even involves some of the city's most prominent clans (Galupo 2014, Mangunay and Melican 2012). Interviews suggest a perception that people generally have lax attitude and low discipline, and many of the new generation of migrants have "transient" mentality and low sense of belonging to the community.⁹¹

Leadership

The Oretas

Since 1988, the Oreta clan had played an important role in Malabon's leadership. Prospero I. Oreta was mayor for two terms (1988-1995), and his cousin, Canuto ("Tito") S. A. Oreta, was mayor for almost three terms (2004-2012). In 2013, Len-len Oreta (Tito's nephew) was elected as mayor.

⁹¹ Interview with Alan Gatpolintan, 2014

The Oretas was a rich and powerful clan whose primary business is construction. A.M. Oreta & Co. Inc. is an AAA-accredited general contractor started in 1946 by Antolin M. Oreta, Sr. (Len-Len's grandfather, Tito's father). The company has been involved in many high profile projects, including the Ninoy Aquino International Airport and the Manila Hilton.

Tito Oreta had international experience as an engineer, and his last position at the firm (before he went into local politics) was vice president of engineering. It was during Tito Oreta's period that Malabon constructed a new 11-storey city hall and embarked on computerization of city government (Botial and Laude 2006). Tito Oreta was notable for his quiet and cheerful ("happy-go-lucky") attitude, but also for having a "lax" approach to governing that was arguably well-received.⁹² He was also politically successful, able to reconcile different political factions, and ran for mayor in 2007 and 2010 without any opposition or rival (Melican 2012). Tito Oreta died as mayor in 2012 due to lung cancer.

Antolin M. Oreta, II (Len-len's father, Tito's brother), was married to Teresa Aquino-Oreta (sister of late Senator Benigno S. Aquino, Jr.). During the Marcos era, some of the Aquino and Oreta family members were detained or exiled. Len-len Oreta grew up in the U.S. and Sri Lanka, and studied business in Japan. After working for several multinational companies, he came back to Malabon as a politician and became a city councilor (2007-2010), vice mayor for Tito Oreta (2010-2013), and mayor (2013-2016). Len-len claimed that he was trying to change Malabon's bureaucratic culture, making it more disciplined, efficient, and responsive to people's needs. However, he had faced challenge especially from those who thought he is not rooted enough to know how things worked in Malabon.

⁹² Interview with Len-len Oreta, 2014

Amado Vicencio

Between the eras of Prospero Oreta and Tito Oreta, the mayor position was held for three terms by Amado S. Vicencio (1995-2004). The Vicencios were not a very rich and powerful clan. Amado's father was an attorney at the city's fiscal office, and other Vicencio family members were in businesses such as gamecock breeding, logging, and spa.⁹³ Amado Vicencio was popular among the people for his friendly, easy-going ways. However, he was suspended as mayor during the final months of his third term after the president's office found him "guilty of abuse of authority" (Tandoc 2003). Following the suspension, clash took place on the streets between supporters of Vicencio, who was keen on remaining in office, and those of his vice mayor, Mark Yambao, who was keen on taking over (Laude 2003).

After Amado's three terms as mayor, his son, Arnold D. Vicencio, was vice mayor for Tito Oreta for two terms (2004-2010). Arnold, however, died in a motorcycle accident in 2012. His wife, Nadja M. Ortega-Vicencio, is currently a city councilor.

Other clans

Aside from the Oretas and Vicencios, Malabon's prominent clans include the Sandovals, who owned Sandoval Shipyards, Inc. (i.e., current Vice Mayor Jeannie S. Sandoval), the Lacsons, who were well-known in the money-lending business (i.e., current Congresswoman Josephine V. Lacson-Noel), and the Yambaos (i.e., current Councilor Maria Anna Yambao, former Vice Mayor Mark Yambao). These clans do not always get along with each other, as shown by various political frictions which had occurred.

⁹³ Interview with Anonymous supporter of Vicencio clan, 2014

c. Transaction Costs

The following describes the transaction costs faced by various mayors of Malabon in governing the city and introducing public innovations.

Information Cost

Familiarity with other cities

Len-len Oreta saw Malabon as a city with unique circumstances, and thus he chose his references carefully. Impressive projects from cities that were not comparable to Malabon did not attract his attention. During a group interview, one of his staff mentioned Taguig City's 'mega health centers', which were hospital-like, 24-hour facilities. However, due to budget differences, Oreta was quick to point out that Malabon and Taguig were not comparable. Another staff pointed how the urban greenery of Singapore was a good model to be adopted in Malabon, especially along the river banks. Again, Oreta was not impressed and argued that Marikina in the NCR may be more appropriate.⁹⁴

Oreta noted several similarities between Marikina and Malabon: both lied on the outer parts of the NCR, with similar land area and population size. He also noted how Marikina also had many informal squatters on its riverbanks, and that the city was dirty and did not have enough funds for development. However, with strong will to instill discipline, the city became better over time. Despite the similarities between Malabon and Marikina, Oreta argued that there were enough differences to distinguish the two. An important difference was that Malabon had

⁹⁴ Group interview with Len-len Oreta, Alan Gatpolintan, and Cleah Nava, 2014

weaker social capital and less support from businesses, while in Marikina businesses were more willing to rally and support the community.⁹⁵

Networking Opportunities

In Malabon, initiatives for new projects may come from either the mayor or head of local departments, based on opportunities presented by national government schemes. For example, the city's Tullahan River Development project was initiated by the city engineer, who identified a potential support facility from the national government that Malabon could tap into to clean their rivers.

Personal networks also played an important role in generating ideas for new projects. For the community-based solar lighting program, Oreta and one of the partner NGO's founders went to the same school. As for his referencing and modeling of Marikina, Oreta is quite close to current Marikina mayor, Del De Guzman. The two often met on occasions related to the Metro Manila Development Authority.

Malabon, however, had not been actively involved in the League of Cities of the Philippines, or other international city-to-city networks.

Access to ICT

Being located in Metro Manila, the city's leaders and staff have had relatively good access to ICT infrastructure. The Malabon city government used the internet mainly to look for technical references. For example, the engineering department would look for comparative structures from other countries.⁹⁶

⁹⁵ Interview with Len-len Oreta, 2014

⁹⁶ Interview with Alan Gatpolintan, 2014

The city's Digital Infrastructure Project, started by Tito Oreta in 2006, was only completed in 2012 and mostly used to improve tax collection purposes (PNA 2012). This was, arguably, rather late and limited in scope for a city located within the NCR. The Internet was not used extensively or institutionally to search for inspiration to develop new programs. Oreta saw that Malabon faced basic issues that did not need to be dealt with fancy programs, but a disciplined approach as exemplified by Marikina.

Negotiation Cost

Relationship with city council

In Tito and Len-len Oreta's era (2004-16), political factions in Malabon city council were largely tipped in favor of the Oretas. In the current term (2013-2016), eight out of 12 elected councilors were from Len-len's political vehicle, the Liberal Party. Meanwhile, the four others are from the UNA, NPC, NP, and an independent. In 2010-2013, Tito and Len-len Oreta's political parties (LKS-KAM and LP, respectively) together won seven out of 12 seats, making their coalition as the majority in city council. Similar situations have occurred since 2004, regardless of the political party they were associated with at the time.⁹⁷

During Amado Vicencio's terms (1995-2004), however, the city council was not necessarily tipped in his favor. In 2004, four opposition city councilors filed an administrative case against Vicencio for 'gross abuse of authority in the purchase of some P88 million worth of property', which eventually led Vicencio's suspension as mayor (Wendell Vigilia 2003).

⁹⁷ Local election data from Commission on Election website (<http://www.comelec.gov.ph/?r=Archives/RegularElections>)

Political affiliations mattered in Malabon because city councilors typically would act along the directives of their political patrons. This was admitted by Len-len Oreta based on his experience as city councilor for 2007-2010. At the time, even if he did not agree with some of Tito Oreta's policies, Len-len would still be a 'good soldier' and follow his directives.⁹⁸ However, in his experience, even if there were disagreements, in general the relationship between executive leaders and legislative members was smooth, in 'quid-pro-quo' manner.

Relationship with citizens groups

Len-len Oreta's administration had tried to build good working relationship with some citizen groups. For example, the city typically worked together with AIMM (Malabon's urban poor alliance) for its housing programs. Being a federation of 128 homeowners and neighborhood associations, affecting the lives of 18,000 families, AIMM was a powerful organization that sat on the city's housing board, anti-squatting board, and the city development council.

One program conducted by the city government in partnership with AIMM was the Community Mortgage Program (CMP). The CMP buys back land currently occupied by squatters from the original owners, lays down proper infrastructure, and subdivides the land so that each occupying household – organized in homeowners associations - would have a land title. This program, however, formalized the squatters and took business away from local crime syndicates who thrived on providing illegal shelter.⁹⁹

In opposition to this program, the local syndicates had hit back by killing several homeowner associations' activists (Felipe 2011, Laude 2012); the latest

⁹⁸ Interview with Len-len Oreta, 2014

⁹⁹ Interview with Carlos Dias, 2014

incident occurred in October of 2014. This had created fear among potential beneficiaries of the CMP program and prevented community members from becoming homeowner association presidents. Mr. Carlos Diaz, chairman of AIMM, admitted that his position was a dangerous one and that he had received numerous death threats.

In a different effort to instill more discipline among the citizens, Oreta had hired officers to go around and fine people who litter. However, this had also created some tension and backlash. Oreta acknowledged that this initiative was not a good move politically, and that he might need to change his tactics and be more accommodative in 2015, in light of his upcoming 2016 re-election bid.¹⁰⁰

Healthy leadership rivalry

The Oretas were such a strong clan that others had decided not to challenge them at times. For example, in 2013, Len-len Oreta ran unopposed, and Tito Oreta faced similar circumstances in 2010 and 2007. However, for other clans, rivalry remains quite strong.

An anonymous supporter of past mayor Vicencio claimed that upon rising into power, Oreta marginalized the Vicencio clan members from important positions in City Hall.¹⁰¹ Rivalry among clans was strongest in 2003, when Vicencio (who was suspended) tried to retain his authority from Vice Mayor Mark Yambao (who was scheduled to take over as acting mayor). Both leaders one morning ordered all department heads to meet them in their respective offices, causing confusion and

¹⁰⁰ Interview with Len-len Oreta, 2014

¹⁰¹ Vicencio did not want to be interviewed for this research. The interviewed respondent requested for anonymity.

tension. The police had to be mobilized to prevent supporters of both camps from clashing outside of city hall (Laude 2003).

In a bout of rivalry for congress representative, Josephine Lacson-Noel, who was defeated by Alvin Sandoval in 2007, managed to get the Electoral Tribunal to do a recount following her charges of 'massive poll fraud' (Botial 2009). After the recount, Sandoval (brother-in-law of current vice mayor Jeannie Sandoval) was ousted, and the post was handed to Lacson-Noel in 2009. More recently in 2013, rifts occurred between the vice mayor and opposing city councilors, resulting in the council being unable to work on legislative issues for months (Melican 2013).

Enforcement Cost

Capable civil servants

Some Malabon department heads claimed that the city needed more staff to complete projects on time and to deliver services smoothly. In the Engineering Department, for example, project backlogs persisted and the city engineer attributed this to the low number of staff relative to the department's workload.¹⁰² In late 2014, he had requested an increase in the number of permanent staff from 11 to 28.

Recruiting permanent staff remained the most viable way for the city to hire qualified people. However, they argued, once staffs were tenured they became assured of lifetime employment and their work motivation tend to decline. Len-len Oreta lamented: 'Once you are a regular employee, basically you don't do any work, because it's hard to take you out. They have to find due cost to take you out, or you have to do something really bad to be taken out'.

¹⁰² Interview with Alan Gatpolintan, 2014

Issues related to staff quality and motivation plagued Malabon. A department head acknowledged that many of her staff lacked the capability to perform their duties and functions. Some department heads faced difficulty in making their employees work diligently, that sometimes they had to take their staff to lunch ('feed' them) using their own money so that the staff would follow directives.¹⁰³ Len-len Oreta noted that, 'most LGUs are actually run by contractual and casual (employees), because they have something to prove, because as mayor, I can take them out any time.'

Capacity building activities

To improve staff capacity, Malabon used a system of performance-based output, which had been mandated by the Philippine Civil Service since 2012. The system included a planning workshop at the beginning of each year in each department, wherein after the workshop, each staff would sit down with his or her superior to agree on achievement targets for the upcoming year. This agreement was formalized and signed between the staff and the superior officer, and would be reviewed every semester.

Low capacity and motivation has 'forced' the city to send staff to special trainings to build a culture of 'service-excellence'. Under the leadership of Len-len Oreta Malabon was declared as a 'caring government,' therefore much pressure had been placed on frontline workers, especially in the social service sectors. Training and retraining of staff to fulfil that vision was necessary, but Malabon faced difficulty in finding the resources for it.

¹⁰³ Interview with Cleah Nava, 2014

Incentives and disincentives

Oreta and his department heads agreed that a system of monetary incentives for staff performance was difficult to implement in Malabon. Giving monetary incentives and disincentives to staff based on their performance presented challenges as it was prone to biases. Therefore, the current incentive scheme only applied to measurable and quantifiable targets. Malabon officers were of the opinion that cities had to seek approval from a higher government authority in terms of amount and procedure of such incentives.

Aside from national regulations, there were also social norms that prevented mayors or department heads from giving incentives to well-performing staff. Oreta and his department heads acknowledged the presence of *pakikisama* norm in Malabon, where in a negative context it was used to justify everyone 'getting along' with each other by not punishing a colleague for non-performance. This resulted in 'no one really gives anyone a bad grade'.¹⁰⁴ Even if there was an incentive scheme, it was perceived that a department or section head may likely respond with the 'socially acceptable' way of recommending everyone for good grades, and sharing the incentive evenly. A department head remarked, 'How could you give to some and not to others? Christmas is fast approaching. How could you not recommend (them for good performance)?'

Summary

The following table summarizes the presence or absence of factors related to leadership, society, and transaction costs of conducting public innovations in Malabon.

¹⁰⁴ Interview with Len-len Oreta, Alan Gatpolintan, and Cleah Nava, 2014

**Table 19: Case Summary:
Leadership, Society, and Transaction Costs in Malabon**

A. Transformational leadership	A1. Leader's commitment	A2. Leader's charisma	A3. Leader's experience
	NOT ALWAYS: Len-len Oreta recently started discipline-building programs. But past mayors have been lax and did not take unpopular steps.	NO: Mayors have been well liked by their respective constituents, but had not the influence to fully implement their visions due to various challenges.	YES: The Oretas had international experience & construction background. Vicencio was more a local politician.
Leadership: 1/3 (NO)			
B. Progressive Society	B1. Favorable history	B2. Progressive local organizations	B3. Good local norms
	NOT ALWAYS: Malabon had favorable distant history (hub for processing & trading) but not so favorable recently (transient migrants).	NO: Local organizations were weak against rent-seeking crime syndicates and local politicians who capitalized on transient migrants.	NO: There was high crime & poverty rate, and low discipline and sense of belonging to the community. 'Pakikisama' norm used as excuse to tolerate lax performance.
Society: 0/3 (NO)			
C1. Low Information Cost	C1.1. Familiarity with other cities	C1.2. Networking activities	C1.3. Use of ICT
	NOT ALWAYS: Mayors were familiar with other cities, but found it hard to find appropriate references for Malabon.	YES: Mayors had access to national government programs, politicians, and had favorable personal networks	YES: Located in the NCR, Malabon benefited from the capital's ICT infrastructure. However, city officials' use of internet was more limited to finding technical references.
C2. Low Negotiation Cost	C2.1. Supportive city council	C2.2. Supportive citizens groups	C2.3. Healthy leadership rivalry
	YES: City council usually tipped in favor of the Oretas (who had ruled longest). Generally issues could be solved in 'quid-pro-quo' manner.	NOT ALWAYS: The city worked closely with AIMM (urban poor alliance), but 'syndicates' opposed such programs, often with violence. Businesses tend to be	NO: Clan rivalry, including sidelining one another for political and administrative positions, was common.

		indifferent.	
C3. Low Enforcement Cost	C3.1. Capable civil servants	C3.2. Capacity building activities	C3.3. Incentives & disincentives
	NO: Leaders admitted shortages of staff. Among those available, performance and work ethic was low.	NOT ALWAYS: There was a signed 'performance commitment' between staff & superior. However, Malabon had limited resources for training.	NO: There was difficulty in providing performance incentives due to fiscal, administrative, and social constraints.
Transaction Cost: 3/9 (NO)			

Chapter 5: Indonesian Cases

1. Background

Reform and Decentralization

Indonesia's "people power" moment took place in 1998, ending Suharto's 32 years of authoritarian rule. The movement, called *Reformasi*, promised to bring a new era of democracy and decentralization. Within a few years after Suharto stepped down, the original 1945 Constitution was amended to curb the powers of the executive, strengthen the legislative, adopt direct elections, acknowledge human rights, and enable a larger governing role for sub-national governments.

The 1998 reform mandated decentralization through an increase in "regional autonomy" (devolution). Indonesia's "big bang" decentralization started in 1999 with the passing of two laws that devolved authority and responsibility, and distribute monetary resources from the central to regional governments.¹⁰⁵ The extent of responsibility being distributed covered almost everything except foreign affairs, defense, justice, finance, religion, and natural resources.

Upon embarking on decentralization, the central government increased transfers to regional governments (provinces, cities, and regencies). Just before decentralization started, 14.9% of total central government expenditure was transferred to regional governments; one year afterwards in 2001, that figure

¹⁰⁵ The first post-reform decentralization laws were Law no. 22/1999 on Regional Government and Law no. 25/1999 on Fiscal Balance between Central and Regional Governments. Prior to that, Indonesia adopted a largely centralistic law on regional government (Law no. 5/1974).

jumped to 23.7%.¹⁰⁶ The average annual proportion of transfers to regional governments was 19.6% for the period of 1990-2000, but increased to 30.9% for the period of 2000-2010. The central government also shifted many staff to local government payroll, with an increase in the percentage of local civil servants from 12.2% to 66.7% between 1999 and 2001 (World Bank 2003).

Transfers from the central to regional government consist of three types of funds: general-purpose grant (*Dana Alokasi Umum* or DAU), special-purpose grant (*Dana Alokasi Khusus*), and revenue sharing (*Dana Bagi Hasil*). Each regional government receives transfers directly from the central government. Similar to the IRA in the Philippines, Indonesia's DAU is also determined by the region's land area and population. The DAU is noteworthy because it is proportionately large: it made up 64.1% of total regional government revenue in 2003, but has decreased to 46.9% in 2008 and to 42.4% in 2013.¹⁰⁷ It is also 'unconditional', meaning regional governments can use it as they see fit, with no link between such entitlement and performance (Ahmad and Mansoor 2002, Lewis 2010).

Meanwhile, the power of regional governments to raise their own revenue remains limited. Income tax and value-added tax, as well as revenue from natural resources, are collected by the central government. Part of natural resource revenue is shared back with province and local governments according to a formula which favors the locality where the resource is found. Other than that, taxes that can be collected by local governments include hotel and restaurant tax, entertainment tax, and advertising tax. Local governments could also collect fees for services from the

¹⁰⁶ Indonesia's national budget (APBN), 1990-2012, from *Statistik Ekonomi dan Keuangan Indonesia*, Bank Indonesia (<http://www.bi.go.id/id/statistik/seki/terkini/keuangan-pemerintah/>)

¹⁰⁷ Indonesia's sub-national budget (APBD), 1994-2014, from Directorate General of Fiscal Balance, Ministry of Finance (<http://www.djpk.kemenkeu.go.id/data-series/data-keuangan-daerah>)

public and businesses, but – unlike in the Philippines – there is no requirement for businesses to register with the local government on a regular basis.

Local Governance

Before 2001, Indonesia adopted top-down decentralization, where development in the regions was conducted by the central government through their regional chapters. Provinces were called ‘first-tier’ regions, while cities (predominantly urban districts) and regencies (predominantly rural districts) were ‘second-tier’ regions that report to the provinces. Under the decentralization framework, however, provinces, cities and regencies are all called ‘autonomous’ regions. Politically, each is accountable to the people, but administratively, they receive money from and report to the national government. Since decentralization started, cities and regencies were at the forefront of regional autonomy, while provinces merely held a coordinative role.

The sudden gain of authority in the regions presented some challenges, such as lack of coordination, increase in the number and types of predatory local taxes, and local regulations that tend to discriminate against people from other regions. Many also highlighted the rise of local dynasties. In response to these challenges, the original 1999 decentralization laws have been gradually revised to better clarify the authority and responsibility of the province and local governments, re-strengthen the role of the province in coordinating and ensuring local government performance, and enable more democratic local elections.¹⁰⁸

¹⁰⁸ The original 1999 decentralization laws were updated with multiple laws, including Laws no. 32/2004, 33/2004, 12/2008, and 23/2014. Other legislations, such as Laws 8/2005, 22/2014, 1/2015, 2/2015, and 8/2015 specifically stipulate issues related to regional elections and the roles of regional chief executives and vice chief executives.

Until 2004, governors, mayors, and regents were appointed by their respective legislative councils (whose members were directly elected). Since 2005 onwards, however, regional leaders have been directly elected by citizens¹⁰⁹. A law on rural villages (*desa*) was passed in 2014, extending some autonomy to villages, entailing direct election of village heads and councilors, direct transfer of funds, and autonomy to utilize such funds.

As of December 2013, there were 539 autonomous regions, consisting of 34 provinces and 505 local governments (412 regencies and 93 cities)¹¹⁰. Local governments are further broken down into sub-districts (*kecamatan* – 6,994 in total) and villages (urban *kelurahan* or rural *desa* – 72,944 in all). Following the Ministry of Public Works' city size classification, 12 cities were considered "metropolitan" (population larger than 1 million), 14 are "large" (population 500,000 – 1 million), 58 are "medium" (population 100,000 – 500,000), and nine are "small" (population less than 100,000). See Figure 13. The average population for Indonesia's 93 autonomous cities is 482,203, while the median is 254,450.

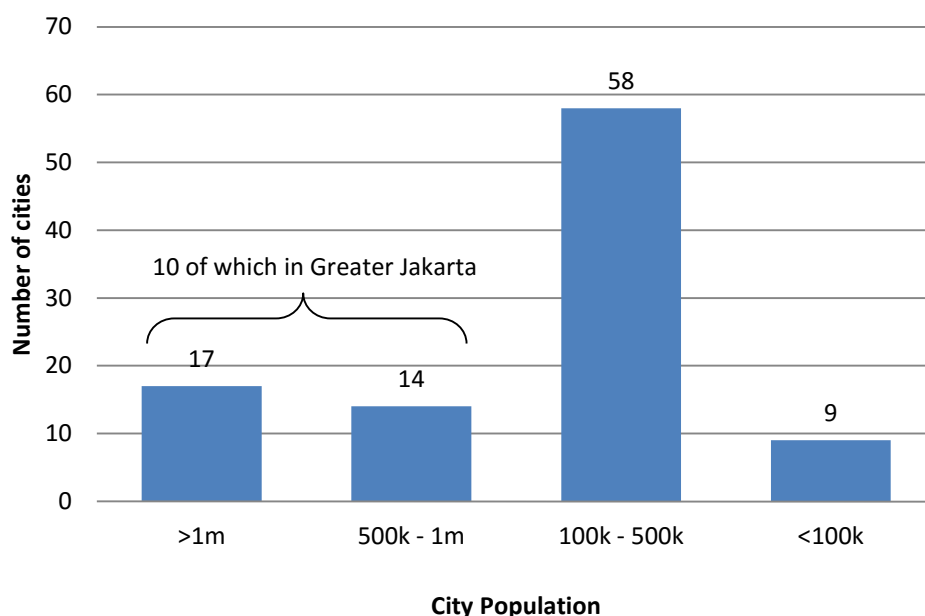
Mayor candidates typically run in the local election with support from one or more political parties, although independent candidacy is also possible. The mayor is elected together with the vice mayor as a 'pair' and serve a five-year term. Afterwards, they could serve only one more term (maximum of 10 years). Many of these pairings take place due to political considerations, with political parties forming coalitions and matching one popular candidate with another to win the

¹⁰⁹ Direct election of regional leaders started in 2005 as per Law 32/2004. However, Law 22/2014 returned the authority to elect regional leaders back to the regional councils. Due to widespread rejection, the government vetoed the law in a count of two days.

¹¹⁰ These do not include 5 cities and 1 regency in the Jakarta Special Capital Region which are "administrative" rather than "autonomous". Data from Ministry of Home Affairs (<http://www.kemendagri.go.id/>) – *Daerah Otonom (Provinsi, Kabupaten, dan Kota) di Indonesia per Desember 2013*

election. Such coalitions often disintegrated after the pair assumes power, and many mayors would run for their second term against their former vice mayor.

Figure 13: Number of Indonesian cities by population, 2013



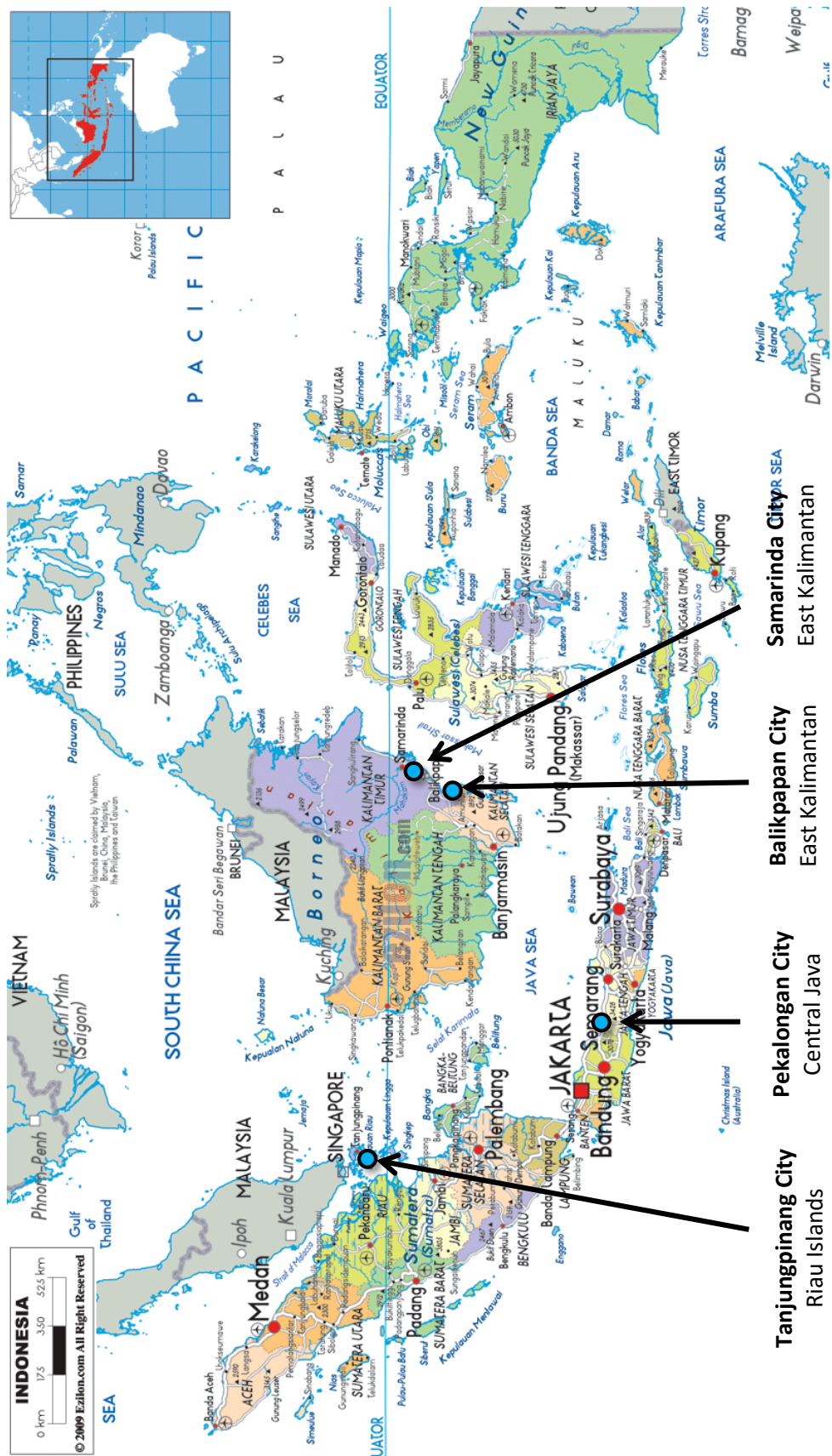
Source: Ministry of Home Affairs 2013

The regional legislative agencies (*Dewan Perwakilan Rakyat Daerah* or DPRD) pass regional regulations (*Peraturan Daerah* or Perda), approve the regional budget, and watches over the executive. For cities and regencies, the DPRD has between 20 and 50 councilors elected in their legislative districts. Out of 93 Indonesian cities, the average number of councilors is 33.65 and the median is 30. Regional councilors serve a five-year term, and can be re-elected with no term limits. The political composition of Indonesia's legislative councils, be it at national or regional level, is rarely dominated by one or two political parties alone.

Case Locations

Based on the selection of Indonesian cases as identified in Chapter 3, a map of the approximate locations of the four cities is provided in Figure 14, followed by each of the case reports.

Figure 14: Indicative Locations of Indonesian Cases



2. Balikpapan City (innovative case)

a. City Profile and Innovations

Balikpapan lies on the eastern coast of East Kalimantan Province, facing the Makassar Strait. It can be reached from Jakarta via a direct two-hour flight. As per 2010 census, Balikpapan had a population of 557,579, or equivalent to about 15% of the province's population. The city's population grew by 3.2% per annum between 2000 and 2010, which is a high growth rate. Previously the city recorded an annual population growth rate of 8.3% between 1971 and 1980, 2.1% between 1980 and 1990, and 1.7% between 1990 and 2000.

Balikpapan is known as Indonesia's "oil city" (*kota minyak*) due to the substantial presence of oil and gas processing and storage activities. Oil and gas has been an important defining feature of Balikpapan, with the city's foundation coinciding with the founding of the first oil well in the region by Dutch companies in 1897.

Balikpapan city proper measures about 503 square kilometers large, but most of the area is covered by hills. Only 15% of the city's land is relatively flat (mostly along the eastern coast). The remaining area consists of reservoirs and protected forests. Balikpapan is part of the larger eastern Borneo rainforest: the second largest remaining rainforest in the world after the Amazon.

Oil and gas are not found in Balikpapan City, but in surrounding areas ("Blok Mahakam"). However, the city is where oil and gas are stored and processed, and where related activities are managed. In 2000, more than half (51.9%) of city's GRDP was generated from oil and gas-related activities.¹¹¹ This sector's dominance in the

¹¹¹ BPS Kota Balikpapan. Gross Regional Domestic Product by Industrial Origin, 2012

city's economy, however, has been reduced. In 2011 it makes up only 29.8%. This reduction is not caused by the decline of oil and gas (it has remained constant), but by the rise of other sectors, most prominently property (from 6.8% in 2000 to 18.9% in 2011). The economic value of the construction sector has risen by 493% between 2000 and 2011, from Rp 667 billion to Rp 3,287 billion (2000 constant price).

Innovations

Balikpapan is considered to have been well-managed for several decades, and innovativeness was a characteristic often attributed to the city. Balikpapan received three Urban Management Innovation (*Inovasi Manajemen Perkotaan* or IMP) Awards, each for 2008, 2010, and 2012. The city also won third prize for the 'Innovative Land Use Planning Competition' (*Lomba Karya Inovasi Tata Ruang*) hosted by the Ministry of Public Works in 2008, and was one of the 10 finalists for the Innovative Government Award of 2011, conducted by the Ministry of Home Affairs.

One of the city's award-winning programs was community-based relocation of informal settlement in Margasari village on the Balikpapan Harbour. Initially, some parts of the coastal areas in Margasari were occupied by dense informal settlements (140 houses) that stood on stilts over a tidal zone, with no sewage system. Worse, they were located on the buffer zone of Pertamina's oil refineries, making the settlement highly prone to fire and other safety hazards. In 2005, the community initiated relocation to the other side of the bay, away from the buffer zone but with access to the waters.¹¹²

The move took place over a period of three years through a participatory process, with support from the city government, the central government, and

¹¹² Interview with Arbain Side and Mulyanto, 2014

Pertamina. A whole new village was constructed on stilts, complete with access road for fire vehicles, village halls, parks, and football fields. Clean water and sewage systems were put in place, mangroves were planted, and the community agreed on a charter to keep their new village clean and orderly. When the research was conducted in 2014, Margasari has remained a well-managed, unique, and scenic settlement.

Another award-winning innovation of Balikpapan is the local land-use regulation that safeguards green open space to a minimum of 52% of the city's land area (allowing only 48% for built-up area).¹¹³ This was more than the 30% stipulated in Indonesia's land use law of 2007.¹¹⁴ Furthermore, Balikpapan mayors have issued a regulation banning any coal mining activity in the city,¹¹⁵ despite the fact that Balikpapan's soil contained high-quality coal (Ibrahim 2005). This highlighted Balikpapan's commitment to long-term sustainability, safeguarding land for future generations at the expense of short-term profit. The city, however, faced constant opposition from several interest groups which argued that natural resources should be duly exploited for the benefit of the society (Syafar 2014).

Balikpapan has also won awards for various aspects of public management, other than innovation. For example, the city has won the *Adipura Kencana* Award for garbage management and pollution mitigation 18 times since the award was first conducted in 1986. It also has won the *Wahana Tata Nugraha* Award for traffic and transportation management 18 times since 1992. In 2014, the city was nominated as

¹¹³ This is stated in the city's regulation (*Peraturan Daerah* or *Perda*) no. 20/2006 about Balikpapan Land Use Plan 2005-2015, and again reinstated in Perda no. 12/2012 on Balikpapan Land Use Plan 2012-2032.

¹¹⁴ Law no. 26/2007 on Land Use is relatively new and answered previous concern on the lack of a minimum standard for green open space in cities

¹¹⁵ Mayor's regulation (*Peraturan Walikota* or *Perwali*) no. 12/2013

Indonesia's "most livable city" by the Indonesian Association of Urban Planners (Alexander 2014). However, as the case of other cities with relatively higher quality of life, living costs have been steeply increasing (Wibisono 2012).

At the international level, Balikpapan was one of the 10 cities that won the ASEAN Environmentally Sustainable Cities award in 2014, along with Melaka in Malaysia and Bandar Seri Begawan in Brunei.¹¹⁶ The award was given for excellence in three categories: clean land (Balikpapan converts rubbish in their landfills into methane gas), clean water (a waste water management system was installed in the water village of Margasari), and clean air (protection of forests within the city's boundaries) (Karim 2014).

b. Society and Leadership

Society

Oil and gas have played an important role in determining the institutional structure that supported Balikpapan's growth. To ensure security of vital facilities, the regional headquarters of the Indonesian armed forces (TNI), as well as that of the Indonesian police forces (POLRI), have been based in Balikpapan rather than in the provincial capital (Samarinda City), which is only 100 kilometers away. Until the fall of Suharto's new order regime, Balikpapan was always led by a mayor with military background.

The rise of Balikpapan as an oil and gas processing hub made the city attractive to many people and businesses. By the 1920's, it was already teeming with skilled professionals working for BPM (a joint subsidiary of Royal Dutch and

¹¹⁶ ASEAN Cooperation on Environmentally Sustainable City
(<http://environment.asean.org/asean-working-group-on-environmentally-sustainable-cities/>)

Shell), as well as manual laborers brought in mainly from Java (80%), and some even from China (Pratama n.d.). The city was basically a Dutch operation, built by Dutch planners and architects. Other companies such as Chevron and Texaco followed suit and established operations in Balikpapan and surrounding area.

Balikpapan became a destination for many people from different parts of Indonesia, predominantly the Javanese and the Bugis. Many of them were not specifically working in the oil and gas sector, but provided related services to companies and workers. Seaports, airports, power and telecommunications infrastructure also developed to keep up with the increasing demands of the growing city (Subiyakto 2014). Since Balikpapan did not have its own food source, trade became an important supporting sub-sector of the economy.

The relatively new and outward-oriented history of Balikpapan made the city very diverse in terms of ethnic composition. Most of the city's residents are migrants whose family has stayed for three generations at the longest, and they came to Balikpapan with a common goal to improve their livelihood. As long as the city government could provide that, they were more than willing to follow rules and do their part as a citizen.

The economic composition of the city is not so much in the form of a pyramid, but more of a vase, where the middle class dominated the structure. Only 6% of the Balikpapan's "formal" population was considered "poor," and the city largely has resources to improve the poor's living conditions.¹¹⁷

Various community interests in the city are organized, and the city has a plethora of ethnic groups and business chambers. Balikpapan mayors have generally

¹¹⁷ Interview with Imdaad Hamid, 2014

maintained and institutionalized good relationship between the city government and such associations. Civil society groups were similarly strong and have established good network among themselves. NGOs conduct regular discussions on various issues with university lecturers and students.¹¹⁸

Many of the city's interest groups held relatively higher standard for public services, and would not hesitate to complain to the city government. This was confirmed by a senior NGO activist who claimed that Balikpapan residents tend to exercise greater public control and would raise issues related to public services, either directly to top-level officials or through the media.¹¹⁹ Newspapers such as Kaltim Post are responsive to these issues, and once the issue becomes news item the city government is even quicker to respond.

Leadership

Syarifuddin Yoes and Tjutjup Suparna

Balikpapan had been led by mayors with military background throughout Suharto's New Order era. The most notable mayors from that era were Col. Syarifuddin Yoes (1981-1989) and Col. Tjutjup Suparna (1991-2001). Interviews with various respondents as well as internet research seem to agree that for the most part, they were honest and capable leaders.

Yoes had high aspirations for Balikpapan: it was during his time that Balikpapan airport first became an international airport. His successor, Tjutjup, largely continued Yoes' leadership style and achievements. They both instilled a military-level of discipline and commitment to their jobs, and expected the same

¹¹⁸ Interview with Jufriansyah and Hotman Simanjuntak, 2014

¹¹⁹ Interview with Jufriansyah, 2014

from their staff.¹²⁰ For example, Tjutjup was always 10 minutes early for every appointment. He was also friendly and sincere. Every Sunday morning he would ride his bicycle along Balikpapan's streets, identified parts of the city that needed attention, and ended the ride by having breakfast at a food stall in a market together local people who happened to be in the area (Muttaqin 2011).

Tjutjup was known by a popular moniker *wagiman* (short for *Walikota Gila Taman*, or 'park-obsessed mayor'). He was very keen on building parks throughout the city and ensuring that they were properly designed and maintained. This, later, became one of Balikpapan's trademark programs related to cleanliness, liveability, and environmental quality.

Imdaad Hamid

Tjutjup was succeeded by Imdaad Hamid, SE (2001-2011), the first of Balikpapan mayors with non-military background. Imdaad was a career civil servant who worked closely with Tjutjup. He served as regional secretary (equivalent to permanent secretary) for eight years (1991-1998) during Tjutjup's administration. Imdaad was elected by city council members as mayor of Balikpapan for 2001-2006. In 2006, he ran for mayor in the city's first direct election and was elected to lead the city again for 2006-2011.

Imdaad had advanced managerial and communication skills and applied much of what he learned from his predecessors.¹²¹ He was also very keen on parks and had a program to ensure every office and housing compound applied green open space standards. Imdaad had good working relationship with NGOs and people's organizations, and was not afraid to make unpopular decisions, such as

¹²⁰ Interview with Imdaad Hamid, 2014

¹²¹ Interview with Jufriansyah, 2014

prohibiting coal mining and safeguarding land from urban encroachment. NGO activists, university professors, and business practitioners generally see him in positive light.

Rizal Effendi

Imdaad's successor and current mayor was Rizal Effendi, SE (2011-2016). Rizal was a senior journalist who assumed top editorial position in East Kalimantan's leading newspaper, Kaltim Post, before he was elected as Imdaad's vice mayor in 2006-2011. Rizal has been known to continue his predecessors' policies and provided similar level of commitment to the environment. His signature program is called CGH (clean, green, and healthy). During Rizal's period, the city's land use regulation that maintains 52% requirement for green open space was re-established, and mayor's regulation to ban coal mining activities was issued.

Rizal's current vice mayor (2011-2016) was Heru Bambang, SE, who previously served as regional secretary under Imdaad's second term in 2006-2011. Heru was a career civil servant who worked directly under previous mayors Tjutjup and Imdaad. During their campaign in 2011, Tjutjup supported Rizal and Heru for the fact that they had the most continuity with previous leaders. Thus it could be argued that Balikpapan has maintained steady and continuous leadership over multiple decades.

c. Transaction Costs

The following describes the transaction costs faced by various mayors of Balikpapan in governing the city and introducing public innovations.

Information Cost

Travels and familiarity with other cities

Balikpapan leaders have had the opportunity to be familiar with other cities, be it domestically or internationally. Most prominently, Singapore has been Balikpapan's main reference. Imdaad and Rizal provided several reasons why Balikpapan leaders see their city as similar to Singapore: First, Balikpapan does not have natural resources within its immediate jurisdictions. The oil and gas that is processed within the city comes from other neighboring regencies. Also, land is hilly and not fertile enough for farming such that food has to be shipped from other places. Fresh water sources are also limited to a few rivers and reservoirs. Second, Balikpapan only has a small proportion of indigenous people. Most of its residents are migrants who came in search of better livelihood.¹²²

Following Singapore, Balikpapan sees that the city's most valuable resource is its people and natural environment. Much attention has been given to develop people's skills through vocational schools and higher education institutions. Balikpapan also places much emphasis on conserving the natural environment and creating a livable city.

From other cities within Indonesia, currently Rizal is learning from Surabaya on how to develop the city's e-government system.

Networking opportunities

In terms of external networks, Balikpapan mayors have been active members of city associations, both nationally and internationally. Tjutjup was among the founders and the first vice chair of Indonesia's City Government

¹²² Interview with Rizal Effendi and Imdaad Hamid, 2014

Association (APEKSI) when it was first established in 2000. Currently Rizal sits on APEKSI's national executive board.

Balikpapan has also been active in international city networks. It is one out of 10 Indonesian cities which are members of ICLEI (Local Governments for Sustainability), and among 19 which are members of CityNet. Rizal is currently president of the Indonesia chapter of CityNet for 2012-2016. Balikpapan mayors have traveled to many cities in Indonesia and Asia in relation to these roles.

Balikpapan also has excellent network with the national government. Considering the city's strategic position, and the fact that it is home to East Kalimantan's main airport, Balikpapan mayors have had plenty of chance to interact with central government officials who visit the province. As admitted by Imdaad, sometimes Balikpapan mayors are asked by East Kalimantan governors to greet ministers who are passing by or transiting in Balikpapan. Tjutjup, Imdaad and Rizal often utilized the chance to have lunch or dinner with the minister.

Access to ICT

Due to its history as one of Indonesia's main oil and gas processing hubs, with presence of multinational and high profile national companies, Balikpapan has had more advanced ICT access than most other Indonesian cities. The Kalimantan-wide regional division of PT. Telkom (the state-owned telecommunications company) is headquartered in Balikpapan.

Currently Telkom is working together with the Balikpapan city government to develop Balikpapan into a 'cyber city' by installing 1,000 WiFi.id hot spots throughout the city (Susanto 2014). These are installed in public spaces such as parks, schools, universities, government offices, banks, restaurants, and even

religious facilities. The city government, simultaneously, is preparing its 'smart city blueprint'.

Aside from ICT access, Balikpapan has been for many decades the regional home of national media groups, where local newspapers, radio stations, and TV stations flourish. Two of the largest newspapers covering East Kalimantan are Kaltim Post and Tribun Kaltim (part of the nationwide Jawa Pos and Kompas-Gramedia groups, respectively). The media plays an important role in Balikpapan's development and political issues, with various city stakeholders actively using the media to advance their interests. Much of political debate and agenda-setting also take place in the media, and this has been claimed as one of the reasons why street demonstrations are a rare event in Balikpapan.¹²³

Negotiation Cost

Relationship with city council

For the most part in Balikpapan's recent history, there had been no major political issue in the relationship between executive and legislative. Part of the reason was because Balikpapan mayors have risen to power largely due to their personal characters and achievements, and not so much due to the support of political parties. Therefore, once the mayor is in power and faces the city council in seeking support for policies and budget, political parties do not matter that much.

At the latest mayoral election of 2011, Rizal and Heru's candidacy were supported by a coalition of seven political parties: Golkar, PDIP, Demokrat, Gerindra, PKB, PAN and PBB (Abdi 2011). At the time, 26 out of 45 city councilors were from these seven parties. In the current legislative term, there were even more councilors

¹²³ Interview with Rizal Effendi and Jufriansyah, 2014

who are politically aligned with Rizal and Heru's supporters: 29 out of 45 councilors (almost two-thirds) are from Golkar, PDIP, Demokrat, and Gerindra.

Imdaad acknowledged that political parties did not play a significant role in determining approval or rejection of his policies by the city council. What mattered more were the individual councilors and their personal political ambitions, regardless of their party. Convincing the councilors was sometimes difficult and Imdaad admitted that he had to manage the issues sensitively. There had been several cases where the city council, driven by certain individuals, did not approve budget requests from the mayor. For example, in 2013 the city council rejected the mayor's requested international travel budget (RSH and FAR 2013).

A past city councilor acknowledged that currently times have changed and political rivalry in the city council has been more intense. He attributed this to the overall condition in Indonesia, where political rivalries are increasing, especially in the capital. He also explained that Balikpapan's past leaders were so respected such that they could prevent political frictions from taking place in the city council. Currently, however, political tensions between the executive and legislative, as well as within the city council, are increasingly taking place.¹²⁴

Relationship with citizens groups

In general there has been a willingness of Balikpapan mayors to consider inputs from NGOs and civil society groups.¹²⁵ For example, each week on Monday at 8-11am, Imdaad would conduct a 'coffee morning' session. Within a month, there would be at least four chances for the mayor to meet with different interest groups:

¹²⁴ Interview with Wahyu Hartono, 2014

¹²⁵ Interview with Jufriansyah, 2014

the department heads, the kecamatan and kelurahan chiefs, and the chamber of commerce.

Businesses are among the most vocal and demanding groups in the city.¹²⁶ Imdaad used to have very open and cordial working relationship with the chamber of commerce. During these coffee morning sessions, issues would be discussed freely. Often solutions would be decided on the spot. Sometimes the discussions would get heated up to a point where Imdaad would be blamed and told to step down. However, he handled it calmly and said that enduring critiques are part of being a leader.

Balikpapan also has strong people's organizations. The city has registered 106 community associations, most of which were ethnic-group related (reflecting the diversity of the residents' regional origins). At the city level, these associations form a collective 'communication forum' (*Forum Paguyuban Kota Balikpapan*). During the time of Imdaad and previous mayors, every month the mayor would host a dinner for the forum and chat with various ethnic leaders.

These regular, cordial communications, Imdaad argued, was how he could maintain peace and defuse possible tensions before they could happen. It was also a medium for the mayor to present a message that he wanted to disseminate to different groups in Balikpapan as he knew these messages would be retransmitted by the groups' chiefs to their members during their respective meetings.

Healthy leadership rivalry

Balikpapan has not experienced major political rivalry. In the latest 2011 mayoral election, Rizal and Heru competed with three other pairs and won 60% of

¹²⁶ Interview with Slamet Brotosiswoyo and Herry Johaness, 2014

the votes; meanwhile, their closest rivals obtained 31% (Soebijoto 2011). At the time of the election, Rizal and Heru held prominent public positions (city vice mayor and regional secretary), and were supported by seven large political parties.

Previously in the 2006 mayoral election (the first direct election in Balikpapan), Imdaad and Rizal also won by securing 56% of the votes. At the time, they were backed by PDIP, PKB and three smaller political parties and competed against two other pairs. One pair was led by Mr. Mukmin Faisyal, who was Imdaad's vice mayor during 2001-2006. In 2001, the mayor and vice mayor was elected by the city council. The Imdaad and Mukmin pair was backed by Tjutjup, the incumbent mayor at the time, in his effort to ensure continuity of leadership. Tjutjup has continued to support Imdaad-Rizal in 2006 and Rizal-Heru in 2011.

Enforcement Cost

Capable civil servants

Generally, Balikpapan's mayors, heads of departments, city councilors, business representatives, and NGO activists agreed that the city government has conducted a good job of managing the city. They also believed that good norms and values have been established among the city's employees. For example, city government leaders were generally quite modest (they do not ride around in fancy cars, unlike in other cities), and even the mayor's official residence was just an old Dutch building (which was only renovated in 2012). Tjutjup used to be very polite and modest on the road, always telling his driver to stop and allow pedestrians to cross, and let other cars take over if necessary.

Much of these qualities have been adopted by the city government staffs, who were generally very responsive. The award-winning community-based

relocation of slum settlement (Margasari village-on-water) was initiated by the local village head (*lurah*), and supported by the mayor. Even presentations to the central government in Jakarta, as well as lobbying for funding support, was initially done by the village head and local staff.¹²⁷ These highlight the high level of initiative found among city government officials.

Capacity building activities

Balikpapan leaders believe in building staff capacity through trainings, but more importantly through interactions and direct modeling of behavior, as done by mayors such as Yoes, Tjutjup, and Imdaad. The discipline of military leaders was engrained through constant interaction, learning by example, and sanctions from the mayors.¹²⁸ The weekly “coffee morning” meeting with mayor was several times cited as one of the important occasions where the mayor would show his staff how to lead meetings, handle issues, and agree on solutions. The presence of the regional armed forces in the city, with the mayor often a part of the armed forces’ leadership, helped to instill a sense of discipline.

Current Balikpapan’s leaders consistently tried to continue good habits, programs, and policies of past mayors. Messages about discipline, service and care for the environment are constantly repeated in various meetings with different interest groups.

Incentives and disincentives

In line with principles commonly held by military leaders, incentives and disincentives were an integral part of how Balikpapan mayors managed their staff. Regulations about these are stipulated in the mayor’s decree that is still in effect

¹²⁷ Interview with Arbain Side, 2014

¹²⁸ Interview with Muhaimin, 2014

until now. For example, tardiness or absence could lead to a 12% pay cut. This applies from the lowest level staff to heads of departments.

As for incentives, Balikpapan has not started to use monetary incentives. Among the mid-level officials, those who display positive traits are typically rewarded with travels to attend events or to conduct comparative surveys in other cities abroad. Singapore is one of the popular destinations of choice. For the higher level officials, aside from rewards in the form of paid travels, Balikpapan also implements a system of ranking where those who were able to reach certain rankings would be offered higher level positions. Similarly, those who already held higher-level positions, but were not able to maintain a high ranking, would see those positions handed over to someone else.

Summary

The following table summarizes the presence or absence of factors related to leadership, society, and transaction costs of conducting public innovations in Balikpapan.

**Table 20: Case Summary:
Leadership, Society, and Transaction Costs in Balikpapan**

A. Transform- ational leadership	A1. Leader's commitment	A2. Leader's charisma	A3. Leader's experience
	YES: Mayors typically worked hard, are disciplined, and humble. Tjutjup's strong commitment to parks gained him the moniker "park-obsessed".	YES: Mayors ensured staff conducted their jobs well by strong motivational skills coupled with direct modelling of good behavior.	YES: Balikpapan's mayors had varied background. Yoes and Tjutjup were from the military. Rizal was a journalist. Imdaad's background was public administration.
Leadership: 3/3 (YES)			
B. Progressive Society	B1. Favorable history	B2. Progressive local organizations	B3. Good local norms
	YES: Natural resources did not turn Balikpapan	YES: Balikpapan's migrants contributed to	YES: Disciplined behaviour and good work

	not into an extraction area, but a manufacturing area that attracts skilled migrants.	a vibrant civil society. NGOs, associations, and business chambers keep the government on their toes.	ethic permeates from manufacturing industries and military-trained mayors to the general population.
Society: 3/3 (YES)			
C1. Low Information Cost	C1.1. Familiarity with other cities	C1.2. Networking opportunities	C1.3. Access to ICT
	YES: Balikpapan's leaders were familiar with many cities, but model their city primarily after Singapore for emphasis on human development and environment protection.	YES: Balikpapan mayors were active in national and international city networks, and had good access to national-level officials who visit the province.	YES: The city hosts PT. Telkom's regional headquarters for the whole of Kalimantan, as well as a thriving national and local media industry.
C2. Low Negotiation Cost	C2.1. Supportive city council	C2.2. Supportive citizens groups	C2.3. Healthy leadership rivalry
	NOT ALWAYS: Mayor was typically detached from political parties. While there were no major issues, the relationship was not consistently harmonious.	YES: The city government has been responsive to NGOs, people's organizations, and business groups. Good relationship has been built and kept through regular meetings.	YES: Mayors have won elections by large margin. There have been no major political challenges during a mayor's tenure.
C3. Low Enforcement Cost	C3.1. Capable civil servants	C3.2. Capacity building activities	C3.3. Incentives & disincentives
	YES: City government officials were judged to be capable, responsive, and held relatively good norms.	YES: Capacity building was conducted through formal trainings, on-the-job trainings, and direct modelling by leaders.	YES: Disciplinary issues could lead to pay cut. Performance is rewarded by travels and promotions, while non-performance sanctioned by loss of position.
Transaction Cost: 8/9 (YES)			

3. Samarinda City (typical case)

a. City Profile and Innovations

Samarinda is the capital of East Kalimantan province. It lies on low, flat land along the mighty Mahakam River, about 20 kilometers before the 980 kilometer long river reaches its delta and flows into the Makassar Strait. The administrative area of the city is quite large, measuring 718 square kilometers, divided into 10 *kecamatan* and 53 *kelurahan*. The city of Balikpapan (currently where the main airport is located) is only about 100 kilometers to the south of Samarinda, and could be reached by about two hours-drive.

In 2010, Samarinda had a population of 727,500, which was equivalent to about one-fifths of the province's population. The city's population grew by an average annual growth rate of 7.5% in 1971-1980, 4.5% in 1980-1990, 2.4% in 1990-2000, and 3.4% in 2000-2010. Although population growth is no longer as high as it was several decades ago, 3.4% per year is still very considerable.

Samarinda is rich in natural resources; it produced 760,467 tons of natural gas in 2009, and 4,397,739 tons of coal in 2008.¹²⁹ However, the Kutai Kartanegara regency that geographically envelops Samarinda is much richer. Natural resource extraction areas such as the Sanga-Sanga block (operated by VICO) and the Offshore Mahakam block (operated jointly by Total E&P and INPEX) are some of the country's largest sources of oil and gas. Part of the revenue from production is shared back by the national government to the province, city, and regency, making East Kalimantan, Kutai Kartanegara, and Samarinda City among the richest regional governments in Indonesia.

¹²⁹ Samarinda Mid-term Development Plan 2010-2015

The large amount of money circulating in Samarinda helped establish it as a center of trade and services of the region. In 2013, the tertiary sector made up 71.5% of the city's GRDP, where the largest sub-sector was trade, hotels, and restaurants (38.2%). Mining and quarrying used to make up 20.9% of the GRDP in 2011, but with the drop in commodity prices, the percentage has dropped to 12% in 2013. Only about 4.6% of the population lived below the poverty line in 2013.¹³⁰

Innovations

Samarinda city government has received some recognition from the central government, such as Top-10 cities for local government implementation reporting in 2013 (HMS2 and WAZ 2015), traffic management award in 2013 and 2014 (Jalil 2013), and healthy city award in 2007, 2009, 2011, and 2013 (Amirullah 2011). These awards, however, were not necessarily for innovations, but more on compliance with central government standards and regulations.

When asked specifically about the city's innovative programs, current mayor Mr. Syaharie Jaang explained about how his government has built many parks throughout the city to increase the size of green open space. Jaang also considered himself innovative in how he communicates with his staff, and that he would sometimes conduct coordination meetings on site when he was inspecting various projects.

Samarinda regional secretary, Mr. Zulfakar Noor, explained that one of Samarinda's innovations was paving the streets with concrete instead of asphalt, because concrete could better withstand the damage caused by floods. As of November 2014, almost all (85%) of the city streets, including small neighborhood lanes, have been paved with concrete. The city is also conducting physical

¹³⁰ BPS Kota Samarinda: Samarinda Dalam Angka 2014

improvements of *kampongs* that specialize in traditional weaving. Other programs which he thought were innovative included bottom-up planning and budgeting (*musrenbang*) and implementation of performance targets for civil servants (*sasaran kinerja pegawai*). These were more ‘top-down innovations’ based on directives from the central government.

Civil society groups, such as JATAM (Mining Advocacy Network) and Pokja 30, however, did not agree that Samarinda City has an innovative public sector. They claimed that the city’s program to build parks throughout the city was a recent attempt to improve the mayor’s public image, driven by court decision that instructed the city government to improve the quality of natural environment which have been damaged by coal mines. Other than that, they claimed that the mayor has merely been following policies and implementing programs of the province and central government.

b. Society and Leadership

Society

The 920 kilometer-long Mahakam River has played an important role in the political, economic, and social history of the region. For many centuries, the Mahakam was controlled by the Kutai Sultanate, which acted as intermediary in the trade between modern goods (i.e., tools and clothes) brought by Buginese and Chinese seafarers with forest products (i.e., rattan and resin) brought by the inland *Dayaks*. Samarinda started as an area granted by the sultan for Buginese settlement, and then grew to be a trading post for the region (Magenda 1991).

The Kutai Sultanate made deals with the Dutch that gave the latter concessions (i.e., trade monopolies, plantations, and explorations of coal and oil) in

return for royalties and protection (Magenda 1991). A portion of the city was granted to the Dutch as the seat of their Eastern Kalimantan residency. It was from Samarinda that the Dutch oversaw various logging, coal-mining, oil & gas-drilling and other activities around the resource-rich region, and shared a portion of the revenue with the Sultan.

Samarinda continued to grow as the trade and service hub for natural resource extraction activities happening in surrounding areas. Due to the large size of general trade and services sub-sector, the city has been easier for low-skilled workers to survive in (Magenda 1991). It has therefore tended to attract the less-skilled and lower-educated migrants. After decentralization, Samarinda experienced fast growth, both in terms of economy and population. The city has been struggling to keep up with this growth and faces mounting challenges in the form of flooding, pollution, and traffic congestion.

Many attributed Samarinda's flooding and pollution to the coal mining frenzy that took place between 2003 and 2013.¹³¹ When decentralization provided mayors and regents with the authority to issue coal mining permits, Samarinda's leaders did not hesitate. Between 2003 and 2009, the mayor issued as many as 65 mining permits covering 71% of the city's land area. Negative impacts from these activities triggered a citizens' class action lawsuit in 2013 against the mayor and other public agencies, in which defendants were eventually deemed guilty of neglecting environmental responsibilities. However, despite the relative success of the class action lawsuit, Samarinda's NGO activists claimed that the city had

¹³¹ Interview with Carolus Tuah and Kahal Albahri, 2014

relatively weak civil society organizations, and NGO activists tend to lose their idealism once appointed to hold public office positions.¹³²

Leadership

Not much information was found on Samarinda's mayors before 2000. Mr. Andi Waris Husain was mayor for 10 years (1985-1995); it was during his period that the city developed Citra Niaga, an urban redevelopment project that won the prestigious Aga Khan Award for Architecture.¹³³ Husain's successor, Col. Lukman Said, was mayor for one period during Samarinda's transition into the decentralization era (1995-2000). His vice mayor, Mr. Achmad Amins, eventually became Samarinda's first mayor of the decentralization era.

Achmad Amins

Amins was a local politician who started his political career in local youth organizations in the 1960s. By 1993, he became chief of Golkar party's Samarinda branch. As leader of the city's largest political party, Amins was chosen by the city council as mayor in 2000, in partnership with Mr. Syaharie Jaang as his vice mayor. He and Jaang stood for re-election in 2005 and kept their positions for five more years. Amins was Samarinda's first mayor during the decentralization era, when the authority to issue mining permits was handed to mayors and regents. He issued most of the city's mining permits between 2003 and 2009. In 2014 Amins was elected as member of the national legislative (DPR) in Jakarta, representing the National Democrat Party. He no longer lived in Samarinda.

¹³² Interview with Carolus Tuah 2014

¹³³ Aga Khan Award website (<http://www.akdn.org/architecture/project.asp?id=1103>)

Syaharie Jaang

Jaang was Amins' vice mayor for two periods (2000-2010), and is currently mayor of Samarinda (2010-2015). He was trained as a lawyer in a local university, and worked in companies based in Samarinda (a developer for five years, two mining companies for 10 years). Jaang founded a coal mining company in 1999 and remained a shareholder there. His political career started as chief of PDIP party's Samarinda branch in 1998, which brought him to be elected as city councilor in 1999.

Many saw Jaang as 'Amin's prodigy'¹³⁴, and that he had learned much from his senior in terms of keeping the city's politicians in harmony. As mayor, Jaang was much less aggressive in issuing mining permits. However, civil society groups argued that was because Samarinda has run out of land to be apportioned. Jaang was also considered 'unlucky' because the negative impacts of the 2003-2013 coal mining bonanza (flooding, mudslides, pollution, etc.) primarily occurred during his term as mayor, not so much during Amins'.

Samarinda's leaders have had some issues with corruption at the executive and legislative level. In 2010, seven high-level city government officials were arrested for mark-up of land acquisition for the national power company's substation (ART and KRI 2010). The city's leaders have also struggled to secure central and province government support, i.e., for development of a new, international airport. The airport has been planned since the late 1980s; construction has started but completing it in the near future will remain a political challenge (RIL, FER, and FAR 2014).

¹³⁴ Interview with Carolus Tuah, 2014

c. Transaction Costs

The following describes the transaction costs faced by various mayors of Samarinda in governing the city and introducing public innovations.

Information Cost

Travels and familiarity with other cities

Samarinda's leaders actively sought models from other cities which they could emulate. Cities in Java provided reference for Jaang's initiatives to develop parks and green open spaces (Silaban 2014). Modeled after those in Surabaya, Yogyakarta, and Batu, currently Samarinda has developed a Senior Citizens Park, a Smart Park, and two Lantern Gardens (YES and NIN 2015). Inspiration came as Jaang visited the earlier cities on business and personal trips.

Cities from outside of Indonesia also provide inspiration on how the parks would take shape. Singapore's Gardens by the Bay was cited as an inspiration for Samarinda's Vertical Park (900 flower pots on a circular four meter-tall frame) that has been built in the median of the city's main intersection (Pardede 2014). Jaang said this would entertain those who are in their cars while waiting for the traffic light to turn green.

Exposure to New York City's Central Park made Jaang aware that Samarinda did not have a substantial green open space. Samarinda is currently developing its own open space landmark by converting two of its oldest secondary schools (located across each other along the city's main avenue) as the park (Pardede 2013). In late 2014, Samarinda was also starting to develop a plan to become a waterfront city, based on inspiration from Melaka in Malaysia. The Mahakam River is much bigger

than the Melaka River and provides plenty of opportunity to be a core element in the city's urban structure (RIZ and ER 2015).

Networking opportunities

Jaang has a close network with 18 other Indonesian mayors and regents who spent five weeks together during an executive training program at Harvard University in 2012. Admittedly, personal network is an important aspect of how he gets new ideas. Typically Jaang hears about promising programs from other cities from his personal networks. Afterwards, he would find more information about them, either by asking his staff to do more research on those programs, or by browsing the web himself.

Samarinda is involved in inter-city networks. For the current period, Jaang is appointed as the chair of the Kalimantan regional chapter of APEKSI (Indonesia's city government association). Samarinda sends top-level officials on trips to other cities in Kalimantan, and sometimes would host other mayors when APEKSI's events are conducted in the city.

The city's international network, however, is more limited and Samarinda is not currently a member of prominent international city association. Networks with national and provincial officials are also not as close as the mayors had hoped, as shown by Samarinda's difficulty to complete several large projects which have been stalled for many years, such as the second bridge over Mahakam River and the Samarinda International Airport.

Access to ICT

Being a sizeable capital of a rich province, access to ICT in Samarinda is typically not an issue. In 2013, the city hosted six state-owned higher learning

institutions (universities, polytechnics, institutes, and academies) and 23 privately-owned ones.¹³⁵ Jaang was well aware of the potential of social media and made references to how the city government used Facebook to communicate his policies to residents. Latest updates from the Facebook account, however, came in December 2013, while the Twitter account's latest activity was in 2010.

Currently Samarinda is trying to be a "smart city" (Amirullah 2015). They have an SMS-gateway system and coordination among community leaders and department heads are facilitated via a Blackberry Messenger group. Telkom is installing 500 WiFi points in Samarinda as part of the collaboration between the state-owned telecommunications company with the city's department of education. The WiFi points will be installed in the city departments' offices, as well as sub-offices in each kecamatan, schools, and community learning centers (Rochim 2012).

Negotiation Cost

Relationship with city council

Jaang and his vice mayor, Nusyirwan, were elected in 2010 with support of five political parties: Demokrat, PKS, PPP, Pelopor, and PBR. At that time, members of these parties occupied 18 out of 45 (40%) seats in the Samarinda city council. Between 2010 and 2014, Jaang theoretically had large political support that would require merely five more votes to make a decision.

The fact that Jaang's political coalition did not continue after the election did not present much issue. No political coalition in Samarinda has been identified as 'opposition', and the relationship between Samarinda's executive and legislative

¹³⁵ BPS Kota Samarinda. Samarinda Dalam Angka 2014

branches has been harmonious over the years.¹³⁶ In recent history there has never been any case where a mayor's proposed program or policy was rejected by the council.

Jaang agreed that the city council has largely been supportive to his proposed programs. He attributed this to his communication skills. Jaang would inform councilors about his upcoming plans during informal settings, such that the councilors were already aware of his ideas before these were formally tabled. He would also speak to the media to generate public support.

Civil society groups such as Pokja 30 and Jatam also agreed that there was a harmonious relationship between the city council and the executive. However, they attributed this to the mutual personal interests of elected leaders that were disruptive to the interests of the people. Many of the city council members were individuals with direct or indirect interest in the mining industry. Rather than conducting supervision on the executive, legislative members were generally seen as part of the city's 'problems'.¹³⁷

Relationship with citizens groups

Samarinda has been facing much critique from civil society groups over the way the city managed its public affairs. In 2013, a class action lawsuit was filed by 19 citizens against the Samarinda city mayor and four others for imposing the negative impacts of mining activities on residents.¹³⁸ Such impacts include substantial increase in the incidence of flooding, pollution, mudslides, destruction of farming

¹³⁶ Interview with Sahib Heri Sutomo and Heri Nurdi, 2014

¹³⁷ Interview with Kahar Albahri and Carolus Tuah, 2014

¹³⁸ The lawsuit was registered in Pengadilan Negeri Samarinda on 25 June 2013 as civil law suit number 55/Pdt.G/2013/PN.Smda. The four other defendants, other than the mayor, was Samarinda city council, East Kalimantan governor, Indonesia's minister of energy and mineral resources, and Indonesia's minister of environment.

and fishing grounds, as well as death of nine children in un-reclaimed coal mines. The mayor was specifically sued for issuing coal mining permits without proper environmental impact analyses, requirement to reclaim land after mining activities, adequate supervision of mining activities, and by violating the city's own land use plan. The city council was charged with neglect in conducting a supervisory role on behalf of the public interest.

The court in July 2014 granted parts of the lawsuit's charges and deemed the defendants guilty of neglect in creating a good and healthy living environment in Samarinda. The defendants were also required to pass a new regulatory framework on mining activities that includes stricter supervision and evaluation, and protects the people's farming and fishing grounds from pollution. Other charges, such as retracting all mining permits and returning the land as public space, were not granted.

Jaang admitted that it was quite common for him to receive criticism from the people, either in print and electronic media, or even directly to his handphone. Admittedly, many of these complaints were related to the city's projects which have been stalled for multiple years, such as the second bridge over Mahakam River (Mahkota Bridge). He also received criticisms related to traffic congestion and flooding in the city, and his newer projects, such as the city parks, have been responded with similar skepticism. For example, one of the lantern gardens has been closed after several months of operation due to conflict among different community groups for the right to collect informal parking fees from visitors (YES and NIN 2015). Jaang, however, is confident that he can win the people's hearts once the projects are back on track. He tasked local community officials (*lurah* and *camat*) as the city's "mouthpiece" (*corong*) to explain the benefits of various

programs to local residents. This, however, did not seem to reduce the people's resentment.

Jaang also highlighted how he was able to mobilize private sector support for the city through their Corporate Social Responsibility (CSR) programs. However, business associations are typically not involved in the city's formal decision-making processes, nor were their opinions or feedbacks on certain policies formally sought. One of the business associations in the city, APINDO, admitted that they, as an organization, have not been invited to any bottom-up planning and budgeting meetings (*Musrenbang*).¹³⁹

Healthy leadership rivalry

There has been no sharp political rivalry in Samarinda's leadership. So far, the city has had two direct mayoral elections. The latest was conducted in 2010, when Jaang and Nusyirwan, with the support of five parties, won 47.86 percent of the votes, while the runner-ups won 24.11 percent. When Jaang and Nusyirwan won in 2010, other pairs congratulated them and there was no challenge to the results.

Previously in 2005, Amins and Jaang were supported by Golkar and won 43.77 percent of the votes. The runner-ups were supported by PKS and won 22.34 percent. In the case of both elections, incumbents won by a large margin. NGOs saw that politicians tend to achieve their objectives in 'harmonious' manner, always ready to negotiate rather than use force.¹⁴⁰

¹³⁹ Interview with Novel Caniago, 2014

¹⁴⁰ Interview with Carolus Tuah, 2014

Enforcement Cost

Capable civil servants

Jaang saw that Samarinda City had good quality civil servants. Out of the city's 9,945 civil servants in 2013, over half had a bachelor's degree. Most of the department heads had a master's degree and some even a Ph.D. This, he considered, was better than the quality of human resources in the city's private sector. When he first assumed position as mayor, Jaang conducted a competency exam for all his officials and was quite happy with the results. He said that individually the staffs were of good quality, and it was up to the city government to ensure that they thrive and perform.

This seems to have been agreed by civil society groups, who did not see any particular issue with the technical quality of Samarinda's civil servants.¹⁴¹ The issue that they raised, however, was more about the top leadership and whether government staffs were led or motivated enough to ensure satisfactory public service.

Capacity building activities

Samarinda's leaders generally make use of the state's civil service training system to build the capacity of their staff. Periodically staff would undergo trainings and exams to be certified and get promoted to the next level. Each level would have a different training curriculum. Samarinda regional secretary confirmed that the central government conducts various training and education programs for local government staff. There were also opportunities for field visits, on-the-job trainings, and continuing education at the master's and doctorate level.

¹⁴¹ Interview with Carolus Tuah, 2014

A rather unique way of capacity building that Jaang conducted was to send himself along with his key staff to attend theater training at the Bagong Kussudiardja Art House in Yogyakarta. Having participated in theater activities during high school, he believed that communications and inter-personal skills (both key aspects of public management) are best developed by engaging in role playing.

One way for Jaang to ensure good implementation of the city's programs was by conducting 'fluid coordination' with his staff. He said that he often conducted site visits to monitor projects around the city, and sometimes would even hold and lead meetings on the spot. These, however, were primarily done on an ad-hoc basis. Neither Jaang nor the regional secretary answered whether the city conducted regular and scheduled meeting among the city's top executives with their staff or other stakeholder groups.

Incentives and disincentives

Samarinda implements a scheme called "income improvement benefits" (*tunjangan perbaikan pendapatan* or TPP), wherein civil servants could top-up their basic income and benefits by showing good performance. The income improvement benefit is calculated largely (75%) based on timely presence in the office and partly (25%) based on achievement of their performance targets. Consequence of this measurement could lead equally to top-up or pay cuts in their income.

The proportion of top-up is quite substantial: up to two times the size of their monthly salary, depending on rank and level of performance. Still, with this top-up, private sector jobs in Samarinda provide significantly higher salary. The city's heads of departments (echelon 2) would receive an overall take home pay similar to that received by a section head (equivalent to echelon 4) in a private company based in Samarinda.

Asked whether this system has worked well in incentivizing staff performance, both the mayor and the regional secretary replied that it was difficult to give direct rewards and punishments to government workers, and that they were ‘still and constantly evaluating the system’.

Summary

The following table summarizes the presence or absence of factors related to leadership, society, and transaction costs of conducting public innovations in Samarinda.

**Table 21: Case Summary:
Leadership, Society, and Transaction Costs in Samarinda**

A. Transformational leadership	A1. Leader’s commitment	A2. Leader’s charisma	A3. Leader’s experience
	NO: Mayors have had personal interest in the coal mining business. Other city officials have been arrested for corruption cases	NO: The mayor’s self-identified ‘innovative’ projects fall short of their models. Criticisms of the city’s leadership are easily found.	YES: Jaang had extensive background in private companies (albeit local ones) before he entered politics.
Leadership: 1/3 (NO)			
B. Progressive Society	B1. Favorable history	B2. Progressive local organizations	B3. Good local norms
	NO: The city has been the administrative hub for extraction of resources based on rent-seeking and feudalistic principles.	NOT ALWAYS: Citizens groups won a class action lawsuit against city government. But NGOs and people’s associations remained weak and prone to elite capture.	NO: Rent-seeking activities and political lobbying were common. There was lax attitude towards work and performance targets.
Society: 0/3 (NO)			
C1. Low Information	C1.1. Familiarity with other cities	C1.2. Networking opportunities	C1.3. Access to ICT

Cost	YES: Samarinda refers to more advanced cities in Java in for parks development. Singapore's parks also used as model.	NOT ALWAYS: Jaang is involved in national associations but not so much in international ones. Relationship with national and province not very close.	YES: The city hosts many higher learning institutions. City officials use social media, but primarily for election purposes. Smart City initiatives under way.
C2. Low Negotiation Cost	C2.1. Supportive city council	C2.2. Supportive citizens groups	C2.3. Healthy leadership rivalry
	YES: Executive-legislative relationship has been harmonious. Mayor and many city councilors share common interest in mining industry.	NO: Critiques from citizens are easily found in print and social media. Citizens' involvement limited as participants in planning exercises and CSR recipients.	YES: Mayors have won elections by large margin. Incumbents are typically sought by various political parties to build coalition. There is no "opposition".
C3. Low Enforcement Cost	C3.1. Capable civil servants	C3.2. Capacity building activities	C3.3. Incentives & disincentives
	YES: City government officials are individually capable, with good educational qualifications.	YES: Various trainings and continuing education for civil servants are regularly conducted. Unique theater (role-playing) training for government leaders	YES: Monetary incentives in place. Substantial income improvement benefits are possible due availability of city's budget.
Transaction Cost: 7/9 (YES)			

4. Pekalongan City (innovative case)

a. City Profile and Innovations

Pekalongan City is a port-town located on the northern coast of Central Java Province, about 384 kilometers east of Jakarta and 101 kilometers west of Semarang (the province capital). It lies on 42 square kilometers of low, flat land along the busy trans-Java highway that connects two of Indonesia's largest cities: Jakarta on the west and Surabaya on the east.

The 2010 Census recorded the city as having a population of 281,434, which is equivalent to about 0.87 percent of Central Java's. The city's population grew by 0.78 percent per annum between 1990 and 2000, and 0.71 percent between 2000 and 2010. This signals that the Pekalongan's population has been rather stable for more than two decades.

Most of the city's regional GDP for 2012 was composed of trade, hotels, and restaurants (27.2%) and manufacturing (20.1%).¹⁴² Pekalongan brands itself as "the world's city of batik" due to large presence of batik and related industries; a substantial portion of the batik circulating in Indonesian markets is produced in Pekalongan.¹⁴³ The city built a Batik Museum in 2006 and in 2014 became the first among Southeast Asian cities to join UNESCO's Creative City Network.

Together with neighboring cities and regencies, Pekalongan forms a larger urban region along Java's northern coast that hosts nationally-prominent textile and garment industries. The city was also a major producer of fish. The Pekalongan fish

¹⁴² BPS Kota Pekalongan: Pekalongan dalam Angka 2013

¹⁴³ Pekalongan Batik Museum 2006-2007 Annual Report

port (*PT. Pelabuhan Perikanan Nusantara Pekalongan*) used to be the biggest in Java in terms of fish production and continues to be among the largest to date.¹⁴⁴

Innovations

Since mid-2000s, Pekalongan’s public sector has adopted numerous breakthrough programs. The city has won 56 awards between 2010 and 2015, many of which are related to public management, city branding, healthcare, urban planning, and information and communications technology. Some of the awards are listed in Table 22.

Table 22: Awards highlighting Pekalongan City’s innovations

Year	Name of Award & Awarded Program	Description
2014	IMP Award: Climate Village	Community-based upgrading and management of coastal flooding settlements: turning disaster into opportunity
2014	IMP Award: Binatur Riverwalk	Community-based upgrading and management of riverbank settlements: re-orienting houses to face the river
2014, 2012	IMP Award: Prosperous & Healthy Market	Empowerment of traditional market vendors through waste management, cooperatives, and community media, supplemented by health services.
2012	IMP Award: Drainage system to alleviate coastal flooding	Development of rivetments, polders, mangrove parks, and some reclamation of coastal areas to alleviate coastal flooding, also used as recreation area
2013	Appropriate Technology Expo (<i>Gelar Teknologi Tepat Guna</i>)	First place nationwide for community technology service centers (<i>Pos Layanan Teknologi</i>)
2012, 2011,	Indonesia Open Source Award	First place nationwide (local government category) for application of FOSS in government management information system.
2012	Indonesia e-Government Award	First place in Central Java province for e-government applications

¹⁴⁴ Directorate General of Fisheries (<http://www.djpt.kkp.go.id/index.php/arsip/c/7/Profil-PPN-Pekalongan/>)

2012	Tourism Award (<i>Cipta Pesona Wisata</i>)	Best in cultural tourism destination category, for Batik Museum and Kauman Batik Tourism Village
2011	Indonesia MGDs Award	First place nationwide for significant improvement in healthcare
2011	Indonesia Innovation Appreciation	Pekalongan City was recipient of Innovating Region Award, and Mayor Basyir was recipient of Innovative Leadership Award from the State Ministry of Research and Technology

Source: Pekalongan city government and additional research

For urban planning and management, Pekalongan has won the biannual Urban Management Innovation (*Inovasi Manajemen Perkotaan* or IMP) Award three time since 2008. The city has won the award on various categories, including slum upgrading, waste management, and traditional market management. Critical to winning the award has been the city's consistent use of three-pronged approach (strengthening of community institutions, construction of infrastructure, and resource sharing among stakeholders).

In terms of public management, Pekalongan reduced the number of structural positions in the city government to increase efficiency and productivity. For example, the mayor combined 15 city departments into nine, and 47 villages (*kelurahan*) into 27. He also reduced the number of school principals by half, such that each principal oversees two schools instead of one. In similar fashion, the city's 14 primary health care facilities (*Puskesmas*) have been grouped together under one management, led by a single director and reporting to the city's health department. This strategy facilitates coordination and reduces structural costs, and allows the unit to manage manpower according to need. Within one year after the Puskesmas BLUD was established, revenue from the unit has risen from Rp 3.5 billion in 2013 to Rp 10.5 billion in 2014.

In terms of ICT, Pekalongan in 2008 started a migration to free and open source software (FOSS). The savings from using FOSS has helped expand ICT infrastructure such that currently all city government offices, down to the sub-district (*kecamatan*) and village (*kelurahan*) offices, have been linked in a Local Area Network. As of late 2014, 50% of local community halls have been provided with internet access. Various management information systems are in place to enable government offices to share and exchange data. The paperless e-office application, for example, allows city officers to give instructions to their subordinates and track them until completion.

b. Society and Leadership

Society

Pekalongan is unique compared to other Javanese cities because of its strong coastal (*pesisir*) character. For many centuries, the city has relied on fisheries, trade, and manufacturing (as opposed to agriculture) as its main sources of livelihood (Hidayat 2003). People from various ethnic backgrounds have come and settled in Pekalongan for many centuries, with some of the more prominent ones being Arabs and Chinese, alongside the local Javanese.

Pekalongan is located quite far from the centers of old Javanese kingdoms, and is not heavily influenced by classic, hierarchical Javanese customs. Instead, Pekalongan people tend to be much more egalitarian. The multi-ethnic composition of Pekalongan's society has contributed to making the city more open to ideas and concepts which are non-native. For example, unlike Surakarta or Yogyakarta, Pekalongan does not have a set style of classical batik motives which are rooted in royal traditions. Instead, Pekalongan batik is always contemporary: combining Javanese lexicons with those of Chinese ("batik encim"), European ("batik buketan"),

Arabic (“batik jlamprang”) and others through the creativity of the designers. Thus, batik in Pekalongan is beyond arts and crafts, but a creative industry.¹⁴⁵

Despite having a multi-ethnic society, Islam remains the predominant religion in the city. Pekalongan is also known as a city of *santri* (religious scholars). Islamic mass organizations such as Nahdlatul Ulama and Muhammadiyah have played a big role in the city for many decades, not just in religious matters but also in education, community development, business, and social services.¹⁴⁶

Most of the economy in the city is generated by micro and small businesses. The largest savings and loans cooperative in Indonesia is Pekalongan-based Kospin Jasa. With assets of Rp 2.8 trillion in 2012, it trumps the second largest cooperative, Gresik-based KSW, with Rp 529 billion worth of assets in 2012 (Hakim and Yogiartoro 2014). The business-oriented nature of Pekalongan’s residents has placed entrepreneurship in high esteem, and having one’s own business (like Prophet Muhammad) was seen with more prestige than becoming a civil servant.¹⁴⁷

Pekalongan people have been known to be critical, especially towards the government. During the New Order era (1971-1997), Pekalongan was one of the few cities where Golkar (Suharto’s political vehicle) did not win the elections (Hidayat 2003). Instead, many Pekalongan residents affiliated themselves with the PPP party. Generally, people tend to speak openly in debates and do not shy away from demonstrations.

¹⁴⁵ Interview with Fathurrahman, 2014

¹⁴⁶ Interview with Muhammad Hasan Bisyrri and Ahmad Rofiq, 2014

¹⁴⁷ Interview with Sri Budi Santoso, 2014

Leadership

Pekalongan's public innovativeness is a relatively new phenomenon that started in the mid-2000s and commonly attributed to the leadership of dr. Muhammad Basyir Ahmad Swawie (Basyir). In 2014 Basyir was serving his second and last term as city mayor, a position that he has held since 2005. Before, he was a city councilor from Golkar Party (1999-2004 and 2004-2009), but resigned to run as mayor in 2005. Basyir is a medical doctor by profession and still conducts private practice out of his home once a week.

Basyir was born into a family of successful Arab-Indonesian entrepreneurs. He is known for outstanding communication, networking, and coalition-building skills, as well as risk-taking and hard-working attitude. He speaks on the local radio every week, and frequently visits local organizations and national-level ministries. His vice mayor in 2010-2015 was Mr. Alf Arslan (Alex) Djunaid, Deputy Secretary General of Kospin Jasa, Indonesia's largest cooperative based in Pekalongan. Previously in 2005-2010, Basyir's vice mayor was Mr. Abu Almafakhir from the PKB party.

Before Basyir's term, Pekalongan City was led by Drs. Samsudiat, MM, who served one term as mayor before Indonesia's reform (1994-1999), and was re-elected by the city council (1999-2004). He won some awards for the development of cooperatives and improvement of low income settlements, but was not particularly seen as an innovative leader. Some people saw that he ran the government in 'business as usual' manner.¹⁴⁸

There were no prominent political 'clans' in Pekalongan. If any, Basyir's family may be the most politically-charged. His wife, Ms. Balqis Diab, owns a batik

¹⁴⁸ Interviews with Fathurrahman and Rofiqur Rusdi, 2014

company and is also a politician and chair of Golkar Party in Pekalongan. She is currently serving her second term as a city councilor, and has been elected as speaker of the council.

c. Transaction Costs

The following describes the transaction costs faced by the mayor of Pekalongan in governing the city and introducing public innovations.

Information Cost

Travels and familiarity with other cities

Basyir admitted to have identified some cities in Indonesia as “sources of learning” for Pekalongan. Tips about outstanding programs in other cities were obtained through media reports as well as conversations with national and provincial government leaders. For example, upon his inauguration as mayor, the governor immediately suggested Basyir to learn from Sragen Regency, also in Central Java, which was known for its one-stop-service, with emphasis on effective use of ICT. Basyir also took his staff to learn from Jembrana Regency in Bali about using ICT to improve public services, as well as Cimahi City in West Java about expanding ICT access to support creative industries. Pekalongan is currently learning from Bandung City in West Java about expanding ICT access to mosques.

Under Basyir’s leadership, Pekalongan has adopted an acronym of ATM (short for *amati, tiru, modifikasi*, or “observe, replicate, modify”) to promote a conscious approach of learning from other cities. He and his key staff had various opportunities to also learn from cities in other countries. From Indian cities, they learned about community-based efforts to improve the housing and healthcare. From Korean cities, they learned about integrated ICT services and e-government. In

Europe, Basyir and team learned about the Dutch method of coastal management and German method of waste management.

Networking opportunities

Another source of inspiration for Pekalongan's innovativeness was Basyir's personal networking efforts with various central government research agencies. Basyir made a conscious effort to network with the Ministry of Research and Technology, and encouraged his heads of departments to link with research institutes housed within their respective line ministries. As a result, Pekalongan officials were much updated about the latest trends in national-level policies and pilot projects that the central government was conducting. Basyir would offer Pekalongan as "laboratory" for the central government's new programs or policies, and commit the city's budget as share of the piloting cost.

Basyir was often invited to present at events organized by central government ministries. Here he had a chance to hear similarly inspiring presentations by other mayors or by central government officials. Pekalongan also participates in Indonesia's city government association (APEKSI).

Basyir also understood that the diversity and dynamism of Pekalongan people was a potential to trigger innovation. Each city department was encouraged to develop an "ABCG network" (local development councils) consisting of academics, businesses, community groups, and government, in almost all sectors. For example, the ICT department hosts the 'ICT council' which includes ICT and media-related academics, businesses, community/activists, and reporters. Pekalongan had signed many MoU's with rectors or directors of higher education institutions.

Access to ICT

Basyir was not a smart-phone carrying, IT-savvy person. This, however, does not reduce his understanding, attention, and commitment to ICT. Since 2007, Pekalongan has celebrated the national Technology Awareness Day (*Hari Kebangkitan Teknologi*) – otherwise forgotten or uncelebrated in many other cities – through high profile events. Community-level innovations were showcased in these events and documented in a database of local innovations.¹⁴⁹

Currently all city government departments and offices have been connected through a Local Area Network. Access to ICT for community members were facilitated through “technology service posts” (*Pos Pelayanan Teknologi* or Posyantek) at the kecamatan level, and “technology cafes” (*Warung Teknologi* or Wartek) at the kelurahan level. At the community (*Rukun Warga* or RW) level, “telecenters” have been established to help the people learn about ICT. As of late 2014, more than half of the city’s RW halls have been provided with access points.¹⁵⁰

Negotiation Cost

Relationship with city council

The relationship between the executive and legislative in Pekalongan has been harmonious, and there has been no major problem for the council to issue ordinances that provide the legal foundations for Pekalongan’s innovations. Basyir saw the city council as “understanding and responsive”, and he believed this is attributable to his long and credible track record in politics and in leading the public sector. The relatively high turnover of city councilors across the three periods also

¹⁴⁹ Interview with Slamet Budiyo, 2014

¹⁵⁰ Interview with Sri Budi Santoso, 2014

provides Basyir with political seniority. Currently in the city council, there were only three people who have been a city councilor for the past three periods.

The number of votes garnered by members of his political party, Golkar, in the city council has been increasing. Out of the 30 available council seats, Golkar only had three seats in 1999-2004, but increased to five in 2004-2009, and now nine in 2014-2019. Golkar thus only needed to win six more votes in order to issue an ordinance. But even when Golkar was relatively less represented in 2004-2009, it did not present major issues. Upon his election as mayor in 2005, Basyir lobbied PDIP (7 chairs) and PPP (8 chairs) to form a coalition with Golkar. This enabled the coalition to hold two thirds of the voting power in the council. Similar coalitions were offered in 2009 and 2014, and various parties again sided with Golkar to form the ruling coalition.

Relationship with citizens groups

Basyir understood very well that Pekalongan is a religious city and that many are concerned about religious education and the need to uphold moral values. Although he was not from the Islamic PPP party, Basyir was Islamic enough to act and speak like them. He introduced Islamic education in Pekalongan's public education, where more Islamic teachers were hired, and Muslim students were obliged to take Quran recital sessions. He said, 'Even when PPP won in previous terms, they never did anything like this'. He also attended religious events, became close with the religious leaders of Pekalongan, and convinced them that he was part of their mission. Once he obtained their trust, Basyir was able to lead the city largely free from political hurdles and politically-charged demonstrations that were previously common in Pekalongan. Basyir also committed himself to constant interaction with the people. Every Monday and Thursday, whenever he was in town,

he would participate in a radio talk show called “The Mayor Answers Your Questions”.

Basyir built harmonious relationship with grass root communities by delivering block grants to the community level. Adding the city’s budget into the mix, Pekalongan expanded the National Community Empowerment Program (PNPM) to cover all 47 *kelurahan* in the city. This enabled community groups to organize themselves with facilitation from NGOs and learn to be involved in local political issues.¹⁵¹

Healthy leadership rivalry

Pekalongan has not experienced bitter political rivalry. If any rivalry were to occur, it would be between the Islamist political factions (i.e., PPP and PKB parties) and the nationalist factions (i.e., Golkar and PDIP parties). Basyir, however, transcended these political lines. He was from Golkar but also known to be religious and bonds well with religious leaders who side with PPP and PKB.

At the 2005 elections, Basyir was paired with Mr. Abu Almafakhir, a grassroots leader affiliated with the PKB party. The pair won 43.4% of the votes; the runner up, supported by PPP party, won 22.2%. The Basyir-Abu pairing, however, was largely political. Abu did not feature much in Pekalongan’s governing matters and he ran as Basyir’s contender in the subsequent 2010 elections.

In 2010, Basyir paired with Alex Djunaid from Kospin Jasa, and were supported by Golkar. Meanwhile, Abu and his vice mayor candidate, were supported by a coalition of seven parties. The political composition of Pekalongan’s 2010 election seems to show that Basyir was the odd character that posed a threat to the

¹⁵¹ Interview with Cayekti Widigdo and Anita Kusumorini, 2014

existing political establishments of the city. However, Basyir's strong figure still won against a large coalition of political elites. The result: Basyir-Alex won 53% of the votes, while Abu-Masrof won 40.8%.

The losing sides for the most part did not post major challenges to Basyir's administration, but they were more interested in building their strengths for the upcoming 2015 elections. Like Abu before him, Alex as vice mayor did not feature prominently in Pekalongan's governing matters. Alex was touted to run as Pekalongan Mayor for the upcoming 2015-2020 term under the banner of PDIP Party (Aji 2015).

Enforcement Cost

Capable civil servants

Basyir acknowledged that at the beginning of his first term, Pekalongan had a paradox of too many public servants but also too few public servants. "Too many" because there appears to be many people floating around, but "too few" because out of those people, not all were utilized to their greatest potential. When Basyir first took over as mayor, civil servants in Pekalongan City largely had low capacity and a lax mindset.

Currently, however, the capability and service orientation of Pekalongan civil servants have much improved, and staffs were generally responsive.¹⁵² This was partially achieved through proper recruitment processes over the past 10 years, identification of the right people to hold appropriate positions, and constant demands from and interactions with Basyir. This was confirmed by the researcher's

¹⁵² Interview with Cayekti Widigdo, Anita Kusumorini, and Budiono, 2014

fieldwork experience in Pekalongan, as well as discussions with central government officials who had worked with Pekalongan government on a joint project.

Capacity building activities

At the beginning, Basyir sent officials and staffs to attend a number of trainings, including the Emotional and Spiritual Quotient training and trainings in service excellence (*Pelayanan Prima*). Up to 4,700 civil servants attended these in batches. Staffs agreed that such trainings and managed to build motivation and establish a common understanding between Basyir and the civil servants in terms of how to deliver public service. Each city department was then tasked to issue “excellent services” according to their sector.

The trainings also enabled Basyir to identify talents for a new generation of public leaders in Pekalongan. He asked each city department to send their best staff to attend the trainings, regardless of their age or rank. This enabled the rise of high quality second- and third-in-line department leaders. Slowly Basyir would give them special tasks, and made sure they were given the opportunity to handle increasingly larger responsibilities. By now the new generation of department leaders was already accustomed to Basyir’s fast-moving style.¹⁵³

Incentives and disincentives

So far, Pekalongan was able to achieve a relatively high success rate of implementation without specifically monetary incentives. A ‘workload benefit’ scheme applied, but the amount of bonus was miniscule (about Rp 250,000 every three months) and it was given to all staff.

¹⁵³ Interview with Dwi Arie Putranto, 2014

Many of Pekalongan’s key officials and staff have been quite proud of their achievement, that they could do things they didn’t think they could do, due to Basyir’s push. They were happy with the morale appreciation from the mayor and the fact that they were often visited by other city officials keen on learning from their experience.¹⁵⁴

Some key staffs looked forward to the new regulation on remuneration-related incentives as result of good performance. However, this requires substantial effort geared toward reviewing staff’s performance. As of now, many of Pekalongan’s department heads admitted that they were overloaded in their jobs, and they had no time to properly review the performance of their staff.

Summary

The following table summarizes the presence or absence of factors related to leadership, society, and transaction costs of conducting public innovations in Pekalongan.

**Table 23: Case Summary:
Leadership, Society, and Transaction Costs in Pekalongan**

A. Transform- ational leadership	A1. Leader’s commitment	A2. Leader’s charisma	A3. Leader’s experience
	YES: Mayor worked hard, had integrity, and was easily accessible.	YES: Mayor was able to get people to do tasks through intensive communication, motivational skills, and making sure he had the right people for the job.	YES: Mayor has background in medical field, business, and politics. He has private practice and his family owns a Batik company.
Leadership: 3/3 (YES)			
B. Progressive	B1. Favorable history	B2. Progressive local organizations	B3. Good local norms

¹⁵⁴ Interview with Cayekti Widigdo and Anita Kusumorini, 2014

Society	YES: Pekalongan has been a multi-ethnic trading and manufacturing hub. It has had a history of being an opposition base and entrepreneurial city.	YES: The city hosts many religious, political, and interest-based organizations. It is home to Indonesia's largest savings & loans cooperative.	YES: Entrepreneurial and open-minded character of the society, always looking for new ideas. Religious morality is upheld consistently.
Society: 3/3 (YES)			
C1. Low Information Cost	C1.1. Familiarity with other cities	C1.2. Networking opportunities	C1.3. Access to ICT
	YES: Pekalongan actively learns from other cities & created the ATM acronym for "observe, replicate, modify"	YES: Pekalongan links with national-level agencies, and actively develops local "ABCG network" (academics, business, community, government)	YES: Mayor puts high priority on development of ICT access and applications. He does not use ICT intensively, but his core team does.
C2. Low Negotiation Cost	C2.1. Supportive city council	C2.2. Supportive citizens groups	C2.3. Healthy leadership rivalry
	YES: Mayor's party has the most seats in city council, and he actively builds coalitions with other parties.	YES: Mayor actively built support from citizens groups, i.e. By delivering block grants to villages, engaging in radio talk shows, and weekly visits to different communities.	YES: Mayor won by substantial margin against broad opposition coalition. However, there was no bitter political rivalry. Basyir was allowed to lead without political hassle.
C3. Low Enforcement Cost	C3.1. Capable civil servants	C3.2. Capacity building activities	C3.3. Incentives & disincentives
	YES (not initially): Pekalongan government officials are motivated and accustomed to the high demands of Basyir.	YES: Various trainings to build motivation and leadership, as well as service excellence.	NOT ALWAYS: The city did not use monetary incentives and disincentives. Performance is driven by motivation and rewarded with praise and trust.
Transaction Cost: 8/9 (YES)			

5. Tanjungpinang City (typical case)

a. City Profile and Innovations

Tanjungpinang City is located on Bintan Island, in the province of Riau Islands. It is about 70 kilometers southeast of Singapore and can be reached from the city-state by a two-hour ferry ride. Tanjungpinang used to be a sub-district (*kecamatan*) within the Riau Islands Regency (*kabupaten*). It had been an urban area for centuries, but its status was only elevated as 'administrative city' in 1996 and further elevated to 'autonomous city' in 1999, after decentralization. Riau Islands Regency eventually broke off from Riau Province in 2002,¹⁵⁵ and Tanjungpinang was declared as the provincial capital of newly established Riau Islands Province.

Tanjungpinang had a population of 187,359 in 2010, which is equivalent to about 11.2% of the province's population.¹⁵⁶ The city has had fast growth rate: an average of 2.74% per annum between 2000 and 2010. Tanjungpinang measures about 239.5 square kilometers, is largely covered by hilly terrain, and consists of urban and rural areas including several islands such as Penyengat and Dompak.

The city's economy - based on its 2011 GDRP - was primarily made up of trade, hotels and restaurants (29%) and construction (20.1%). The fastest growing sub-sectors between 2010 and 2011 were construction (12.6%), followed by financial, real estate and corporate services (8.8%). Most of the city's workforce (79.7%) was in the services sector. Among the recent economic growth engines of the city were new construction of provincial and city government offices.

¹⁵⁵ Riau Islands Province was established in 2004 (based on Law 2002).

¹⁵⁶ The bulk of Riau Islands' population (56.2%) lives in the neighboring industrial island of Batam, just 20 kilometers south of Singapore.

Innovations

Tanjungpinang has not received an award for public innovation, but that does not mean the city has not introduced new initiatives. Past mayor Dra Hj. Suryatati A. Manan (Suryatati) highlighted the development of Tanjungpinang's massive new executive and legislative offices in Senggarang, a relatively undeveloped area about 15 kilometers away from the city center. Construction of the new offices started in 2002 and was completed in 2007. With the completion of a new road and a series of bridges in 2012, the new offices are now accessible via a 20-minute car ride from the city center (previously the travel took about 45 minutes).

Relocation of city hall was motivated by a drive to spread development across the city's territory and reduce density in the old city center. Since the presence of the new city hall, Suryatati claimed that the "urban center-point" of Tanjungpinang has shifted outwards to a new commercial precinct called Bintan Center, about half-way between the city center and the new city hall. The relocation, however, faced much criticism from residents because it increased distance between the people and city leaders.

During Suryatati's term, Tanjungpinang was identified as a "city of *gurindam* and *pantun*" (types of Malay poems), and substantial emphasis was placed on making the city a center of Malay literary culture. Effort was also geared to revitalize historic sites and to support various cultural events. Aside from the annual *Gawai Seni* festival to showcase Malay culture, there were also smaller festivals to showcase other ethnicities residing in the city.

Currently, during the leadership of H. Lis Darmansyah, SH (Lis), some of the city's innovations include renovation of public parks, regulation of on-street parking

in the downtown area, and establishment of SMS-based mechanism to register citizen's complaints. The city is also in the process of installing Wi-Fi in public parks and bus stations near higher learning institutions.¹⁵⁷

Interviews with city council members, civil society organizations, and businessmen, however, found that such innovations were not considered useful or substantial enough to generate public value. There was a general perception that the city has not been very innovative and that the changes which were introduced were miniscule and have not provided much benefit. A former council member highlighted how the city council issued new local regulations, such as curfew for children above 9 PM and requirement for Muslim children to recite the Quran before they could enter primary school. However, the city government ultimately had no resource to enforce these regulations.¹⁵⁸

b. Society and Leadership

Society

Being the largest island on the busy and narrow Singapore Strait, Bintan had been an attractive base for various kingdoms and sultanates. The urban core of Tanjungpinang is located on a strategic area of Bintan Island, facing the calm Riau Bay, and protected by a smaller island called Penyengat. This area was once the seat of Bentan Kingdom (the island's namesake), before it became part of the Srivijaya Kingdom in the early 1300s, the guerilla capital of Malacca Sultanate and seat of Johor Sultanate in the 1500s, and was taken over by the Dutch in the 1700s.

¹⁵⁷ Interview with Riono, 2015

¹⁵⁸ Interview with Husnizar Hood, 2015

After the Dutch lost the battle to control Malacca Strait through the Anglo-Dutch Treaty of 1824, Tanjungpinang became the base from where the colonial government administered Riau Islands Regency. However, it was clear that the Dutch did not consider Tanjungpinang and the Riau Islands with as much importance as they did before. Attention to the region was only re-established later in the 1970s, after the founding of an industrial zone in Batam and the production of natural gas in Natuna Islands. Later in the 1990s a similar industrial zone was established in Bintan, and a special economic zone was declared in 2007 covering Batam and parts of Bintan and Karimun islands.

Tanjungpinang was traditionally considered the center of Indonesia's "Riau region", which covered the country's areas with predominantly ethnic Malay identity. While Malays make up the largest ethnic group (close to 50%), other ethnicities such as Chinese (about 25%), Buginese, Minang, Batak, and Javanese have sizeable presence. Income is not high, but life is generally easy with no threat of natural disaster and peaceful coexistence between the different ethnic groups.

Tanjungpinang residents typically have an opinion about the way the city is run, but they rarely speak out through formal mechanisms. Academics pointed how residents would complain in social media, but would hesitate to advocate for it through legal means or through street demonstrations.

Leadership

Although Tanjungpinang has had a long history as a trading and administrative center, it only became a city in 1996 and until today it has only been served by two mayors.

Suryatati A. Manan

Formal leadership in Tanjungpinang's recent history started in 1996, when Suryatati was appointed as the first mayor (1996-1999) of the "administrative city" of Tanjungpinang. When the city became an "autonomous city", she was appointed as ad interim mayor (1999-2001) before formally elected by city council as the first mayor of Tanjungpinang City (2002-2007). In 2007, she won in the city's first direct election by a huge margin (winning 84% of the votes) and served her second term in 2007-2012. In total, she served 16 years as Tanjungpinang's leader.

Suryatati was a career public servant. After graduating from the Home Affairs Academy (*Akademi Pemerintahan Dalam Negeri*), she was hired initially as a contract staff, and later worked her way up to become Riau Province's head of economic division (1985-1993), and head (*camat*) of the West Tanjungpinang subdistrict (1993-1995). Suryatati was also known as a poet and sometimes would use the *pantun* to deliver political messages. During both of her tenure as mayor, Suryatati was supported by the PDIP party, which held majority seat in the city council in 2002. She was not, however, a cadre of the party.

In 2013 Suryatati and her former vice mayor, Mr. Edward Mushalli, were investigated for a possible corruption case involving the leasing and maintenance costs of the mayor's and vice mayor's official residences (Tribun Batam 2013). Afterwards both Suryatati and Mushalli were reported to have returned the money to the city government. There has been no update on the case (Ruslan 2013). Suryatati was also known to be quite lenient in dealing with her staff, and did not push them to high performance standards.

Lis Darmansyah

H. Lis Darmansyah, SH (Lis) is Tanjungpinang's second mayor who was serving his first term (2012-2017). He was elected in 2012, after defeating – among others – Suryatati's daughter, Ms. Maya Suryanti. Lis is a career politician from the PDIP party who served as city councilor between 1999 and 2004, and was elected as provincial councilor for 2004-2009 and 2009-2014 (but he resigned to run as Tanjungpinang mayor in 2012). During his 1999-2004 tenure in the city council, Lis was the council chair.

Lis was initially educated in tourism and had the experience of working in hotels in Dubai, Jakarta, and Batam. He eventually studied law and switched course to politics, became the vice chair of PDIP in Tanjungpinang City (2000-2005), and secretary of PDIP in Riau Islands Province (2005-2010 and 2010-2015).

Lis was considered as a relatively young leader and a reformer. He has emphasized the need for Tanjungpinang's civil servants, entrepreneurs, and society to be creative and innovative in their work and business (DJO and HM 2014). Many of the city's civil servants were reportedly "uneasy" (*resah*) when Lis won the election in 2012 (Handayani 2012). They foresaw that he would bring in many radical changes to the way the city would be run.

c. Transaction Costs

The following describes the transaction costs faced by the mayor of Tanjungpinang in governing the city and introducing public innovations.

Information Cost

Travels and familiarity with other cities

Interview with Suryatati did not identify substantial referencing of other cities for Tanjungpinang's development. Malaysia's Putrajaya, with its expansive "offices in the park" concept away from Kuala Lumpur, was mentioned as a model for shifting Tanjungpinang's capitol. Suryatati also explained that she generated ideas largely by communicating with artists in her effort to make Tanjungpinang a cultural city.

Current city secretary, Mr. Riono, who works closely with Lis, was able to identify more programs from several Indonesian cities that Tanjungpinang is emulating. For example, the inspiration for revitalization of city parks with free WiFi connection came from neighboring Batam. Also, Surabaya was cited as an example where the city government actively promotes engagement with citizens through ICT. However, no international city was cited as model by either leader.

Networking opportunities

Tanjungpinang have not participated much in intercity networks. Suryatati acknowledged that she attended the Indonesian city government association (APEKSI) meetings once a year, but did not play an active role in the organization. Tanjungpinang in Suryatati's period did not rely much on internal networks either. The relationship between the mayor and her staff, as portrayed by a former head of department and confirmed by senior academics who were often involved in government meetings, was mostly top-down in character, with the mayor coming up with most of the initiatives and making most of the decisions.¹⁵⁹ This condition, they

¹⁵⁹ Interview with Zamzami Karim and Endri Sanopaka, 2014

argued, has persisted even currently during Lis' tenure, despite his calls for more creativity from civil servants.

Lis, too, has not played an active role in APEKSI. It was only in late 2014 that Tanjungpinang was selected as one of the locations for GIZ-funded Urban Nexus project conducted by ICLEI to encourage sustainable urban management (Syamsir 2015). In relation to this project, recently Lis has been traveling to Mongolia and the Philippines for workshops with city mayors from other countries.

Being the capital of the newly established Riau Islands Province did not increase networking opportunities between city leaders and province leaders as both were primarily busy with their own turfs, despite sharing a base in the same city. The largest urban hub in the province is not Tanjungpinang, but Batam. When the provincial council of Riau Islands was selected as host for UCLG Asia Pacific's meeting of regional councils in 2010, the meeting was conducted in Batam rather than Tanjungpinang, as the former was better prepared in terms of infrastructure and facilities.

Access to ICT

ICT did not play an important role for Suryatati to seek models from other cities. She did not use much of the internet and relied mostly on local print and electronic media. She did show an interest in e-government and visited Jembrana Regency in Bali that was known for their ICT-based innovations and e-government initiatives. However, she said that e-government was still a distant goal of the city because there were still people in Tanjungpinang who did not even have access to electricity.¹⁶⁰

¹⁶⁰ Interview with Suryatati S. Manan, 2014

Lis, in contrast, has been more pro-active in using ICT to for public management purposes. His campaign in 2012 was supported by the use of social media, and he still uses it for political communication and seeking feedback from the people. Many of the city's current programs reflect Lis' more open approach to ICT. Recently city departments have also used their websites and social media more actively and in an interactive manner. The city's small size, however, have prevented telecommunications provider from laying out extensive ICT networks and bandwidth in the city, and internet connection was generally unsatisfactory.

Negotiation Cost

Relationship with city council

The relationship between Tanjungpinang's executive and legislative branches has mostly been harmonious. When Suryatati was first elected by city council members in 2002, she was supported by PDIP party, which at the time held 10 out of 25 seats in the city council. When she ran for re-election in 2007, she was fielded by a coalition of political parties, including PDIP, Golkar, and PKS which altogether held the majority seat in the council. For almost two periods, Suryatati had a good working relationship with the city council, especially PDIP. Suryatati was not a party cadre, but their relationship was mutual: Suryatati benefited from PDIP's political support and PDIP from her popularity and her discretions as mayor.

Currently in Lis' tenure as mayor, the relationship is even more harmonious. Both Lis and the city council chair are from PDIP. Although not the majority, PDIP holds more seats (seven out of 30) than any other political party (runner up is Golkar with four seats). During formal ceremonies or events, the mayor typically would be seated next to the council chair. Outside of formal events they would also meet to discuss party issues.

Good relationship is also established between city council members and various department heads. The former head of tourism department, for example, explained how he would approach the city council chair and heads of various factions in advance of formal meetings to explain the importance of his upcoming programs, and the amount of budget that was requested.¹⁶¹ He highlighted how sometimes city councilors would encourage him to increase the budget because they foresaw the benefits of his programs. Sometimes his department would also invite city councilors to go on comparative visits such as to Bali, to see the mangrove forests that Tanjungpinang was planning to emulate.

Academics, however, critiqued the harmonious relationship between the executive and legislative, and argued that the city council is not doing enough in their role to supervise the executive.¹⁶² Another academic confirmed that political parties in Tanjungpinang were typically vocal only during election time. A former city council member, Mr. Husnizar Hood, argued that debates do take place in the city council. For example, during his tenure, the council rejected the mayor's proposal for progressive parking charges in downtown with the argument that Tanjungpinang residents could not afford such rates.

Relationship with citizens groups

Suryatati conducted monthly meetings with formal neighborhood and community leaders (RT and RW chiefs) to understand the issues that were facing residents. Whereas previously RT and RW chiefs conducted their roles voluntarily, Suryatati started giving an incentive of Rp 100,000 (around S\$10) per month for each chief. The nominal was not substantial, but she said that it was a way to show

¹⁶¹ Interview with Abdul Kadir Ibrahim, 2015

¹⁶² Interview with Zamzami Karim, 2015

appreciation of their work. No relationship building was mentioned beyond that with formal community leaders.

Whereas Suryatati conducted outreach through formal mechanisms, Lis was reaching out to the general public through an SMS-based complaint handling mechanism. He also speaks on the radio and encouraged feedback from listeners, either on-the-spot, or to be collated by the radio station. The collated feedback would then be discussed by the mayor and heads of departments and the relevant department would take action.

Some academics and civil society groups, however, were pessimistic whether these complaints have been taken seriously by the city government. Business interests were even more skeptical. They argued how they were rarely consulted by the mayor, and how public projects typically only rely on consultants rather than gathering feedback from stakeholders. If any, it is the business associations which have tried to give feedback to the government but to little avail.¹⁶³ The impact, they argued, could be seen from small size of private investments in the city.

Healthy leadership rivalry

Tanjungpinang has been largely free of bitter political rivalry. Suryatati was a popular figure such that during her re-election in 2007, she won 84.25% of the votes. Lis, too, in 2012, won 46% of the votes. Both were supported by PDIP, which has been consistently the biggest winner in the city's legislative elections since 1999.

A short period of rivalry occurred in the 2012 election, and ironically it occurred between Suryatati and PDIP. Barred from running for her third consecutive

¹⁶³ Interview with Selamat Budiman, 2015

term, Suryatati approached PDIP to support her daughter, Maya Suryanti, a cosmetic physician, to be her successor. PDIP, however, has been preparing Lis to run for mayor for some time and did not find Maya to be a very popular candidate due to her limited political track record. Maya was eventually supported by a Suryatati-mobilized coalition involving Golkar, PKS, PPP, and PKNU. Her vice mayor candidate was Mr. Tengku Dahlan, who had been Suryatati's regional secretary. Maya eventually gained 31.3% of the votes and came out second after Lis, who won 46%.

Despite the short period of rivalry between Suryatati and PDIP, which impacted Suryatati's relationship with city council in 2012, no bitter feelings were kept. Maya congratulated Lis, and Suryatati eventually withdrew from politics.

Enforcement Cost

Capable civil servants

Tanjungpinang has had some issues with quantity and quality of government staff. The city was only established as an autonomous city in 2001 based on a 1999 law. When it was an administrative city (1996-1999), Suryatati recalled that Tanjungpinang had only 40 staff. Now it has thousands. Still, that was considered insufficient to fully implement its role as a city. Some structural positions were still vacant and several officials held multiple positions.¹⁶⁴

The regional secretary acknowledged that the city was still understaffed and that not all civil servants were adequately qualified. A senior academic explained how Tanjungpinang's elevation to be an autonomous city was initially driven by local political maneuvers by heads of subdistricts (*camat*) and villages (*lurah*). He believed that some of the city's department heads still had the quality and parochial

¹⁶⁴ Interview with Chaidar Rahmat, 2015

orientation of subdistrict-level officials. A former head of department complained that often his instructions would be misunderstood or misinterpreted by his staff, resulting in low quality output.¹⁶⁵

Suryatati tried to fill in the vacant positions by recruiting civil servants who were already working at the province or other city and regency governments to be transferred to Tanjungpinang. However, at the same time, surrounding regencies were also undergoing status elevation; thus various local government units were similarly recruiting for staff.

The city's regional secretary acknowledged that Tanjungpinang's officials were used to working with slower speed, such that when Lis came in 2013 with his more dynamic style, some were taken aback and needed time to adjust.¹⁶⁶ Others highlighted how lack of initiative from city officials possibly contributed to the past and current mayor's top-down approach. They said, even if the current mayor asked his staff to be innovative, very few people had the capacity and courage to do so.

Capacity building activities

Tanjungpinang's leaders have utilized various avenues to increase the capacity of government staff. Suryatati relied on conducting trainings and upgrading of staff's university education. Lis used those routes too, but in addition, he also conducted more intensive communication with his staff.

For example, Lis would meet with most of the city's departments several times a month. Some of the occasions include a biweekly Thursday morning exercise and a monthly flag-raising ceremony with all departments. During these times, Lis

¹⁶⁵ Interview with Abdul Kadir Ibrahim, 2015

¹⁶⁶ Interview with Riono, 2015

would deliver speeches about the need to work creatively. Heads of departments are also rotated to deliver speeches at different departments on the weekly flag-raising ceremony held at each department. The intention was to facilitate an exchange of knowledge, and so all city government staffs were aware of the programs and policies being implemented in other departments.¹⁶⁷

Incentives and disincentives

Tanjungpinang has been using rewards and punishments to encourage better performance. Suryatati institutionalized the recognition of 'model employees' as well as 'best and worst' health clinics, *kecamatan*, and *kelurahan* on an annual basis. Those that were deemed 'best' received prizes in the form of tools and sometimes vehicles, while those deemed 'worst' had to raise a black flag in front of their office. She was quite persistent in obligating the *kecamatan* and *kelurahan* to put up those flags. However, the black flags were eventually scraped off because some neighborhoods were consistently rated as 'worst' and this created a sense of hopelessness among the local officials. Model employees were given the opportunity to pursue further studies and conduct comparative visits to other cities. No monetary reward was given to individuals.

Similar incentive-based policies were continued by the Lis administration, in which each department would announce an 'employee of the week' and 'employee of the month' according to their level. The decision was based on a number of indicators, such as attendance, on-time arrival and departure from office, rate of work completion, and approval rating from their peers. Monetary reward to individuals in the form of 'development fund' has also been introduced. The amount

¹⁶⁷ Interview with Riono, 2015

was not very substantial (about 50% of the basic salary), but was meant as acknowledgement and incentive to work harder.

Punishments were not announced, but followed-up individually through informal and formal warnings as well as pay cuts. The disincentive for late arrival of up to 10 times was a 25% pay cut. If that occurred more than half of the time, the result was non-payment of their basic salary.

Summary

The following table summarizes the presence or absence of factors related to leadership, society, and transaction costs of conducting public innovations in Tanjungpinang. The table largely refers to the period under Suryatati's leadership, as Lis tenure only started in 2013 (too recent to make an impact).

**Table 24: Case Summary:
Leadership, Society, and Transaction Costs in Tanjungpinang**

A. Transformational leadership	A1. Leader's commitment	A2. Leader's charisma	A3. Leader's experience
	NO: Suryatati had many supporters but was reluctant to be unpopular, or push her staff to higher performance standards.	NOT ALWAYS: Suryatati was popular & attracted political support. However, people did not always follow her & many programs faced implementation challenges.	NO: Suryatati's background was solely in the local civil service of Tanjungpinang.
Leadership: 0/3 (NO)			
B. Progressive Society	B1. Favorable history	B2. Progressive local organizations	B3. Good local norms
	NOT ALWAYS: The city was a vibrant trading hub, but has been a periphery since the 1700s. Recent upgrade as provincial capital created much local political bickering.	NO: Many art and ethnic-based groups exist but there was little activity in building political awareness or strong demands for better public services.	NO: People were generally content with the easy life. Meritocracy was not pursued and there was lenient attitude towards politics and corruption.

Society: 0/3 (NO)			
C1. Low Information Cost	C1.1. Familiarity with other cities	C1.2. Networking opportunities	C1.3. Access to ICT
	NO: For the most part, Tanjungpinang (under Suryatati) did not refer much to programs from other cities.	NO: Involvement in city associations, as well as networking with province and national government were minimal.	NO: Suryatati saw e-government strategies as “too distant” to be relevant for Tanjungpinang.
C2. Low Negotiation Cost	C2.1. Supportive city council	C2.2. Supportive citizens groups	C2.3. Healthy leadership rivalry
	YES: Relationship between mayor and city council was largely harmonious. The party that supported the mayor held the majority of seats.	NOT ALWAYS: Suryatati built relationships mostly with formal RT and RW leaders only. Business interests were rarely involved in decision-making.	YES: Mayors have won elections by large margin. There were no major political challenges during a mayor’s tenure.
C3. Low Enforcement Cost	C3.1. Capable civil servants	C3.2. Capacity building activities	C3.3. Incentives & disincentives
	NO: Tanjungpinang suffered from lack of quality and quantity of civil servants. Existing ones held largely parochial views and tend to be reserved.	YES: Capacity building was conducted through formal trainings, continuing education, and communication with staff.	YES: ‘Best’ and ‘worst’ kelurahans were chosen based on their performance. ‘Employee of the month’ type awards were given.
Transaction Cost: 4/9 (NO)			

Chapter 6: Comparisons and Analysis

This chapter provides a cross-case analysis following a description of how leadership, society, and transaction costs took shape in the innovative and typical cases (Chapters 4 and 5). There are three ways in which the cases are compared and contrasted: (1) between innovative and typical cases, (2) between different time periods of the city, ranging from the start of decentralization to 2014, and (3) between Philippine and Indonesian cities. Each comparison ends with assessments of the explanatory factors.

1. Comparing Innovative and Typical Cases

The comparison between innovative and typical cases aims to identify possible patterns which distinguish one from the other. It does so by identifying ways in which the explanatory factors (leadership, society, and transaction costs) have been present or absent in each city over time. The findings are as follows: (1) seven out of eight cases (all but Dagupan, PH) confirmed the expected association between leadership, society and innovativeness. Meanwhile, (2) a slightly different seven out of eight cases (all but Samarinda, ID) confirmed the expected association between transaction cost and innovativeness.

a. Leadership Factors

The extent to which leadership sub-factors were present in each case is displayed in Table 25. Among 'innovative' city governments, all four cases showed presence of transformational leadership, which in this research was identified

through (1) charisma, (2) commitment, and (3) diversity of experience. In contrast, three of the four typical city governments (all but Dagupan) have had issues with lack of consistent presence of transformational leadership. Table 26 shows that seven out of eight cases confirmed the proposed theoretical link between leadership and innovativeness, while one case (Dagupan, PH) did not.

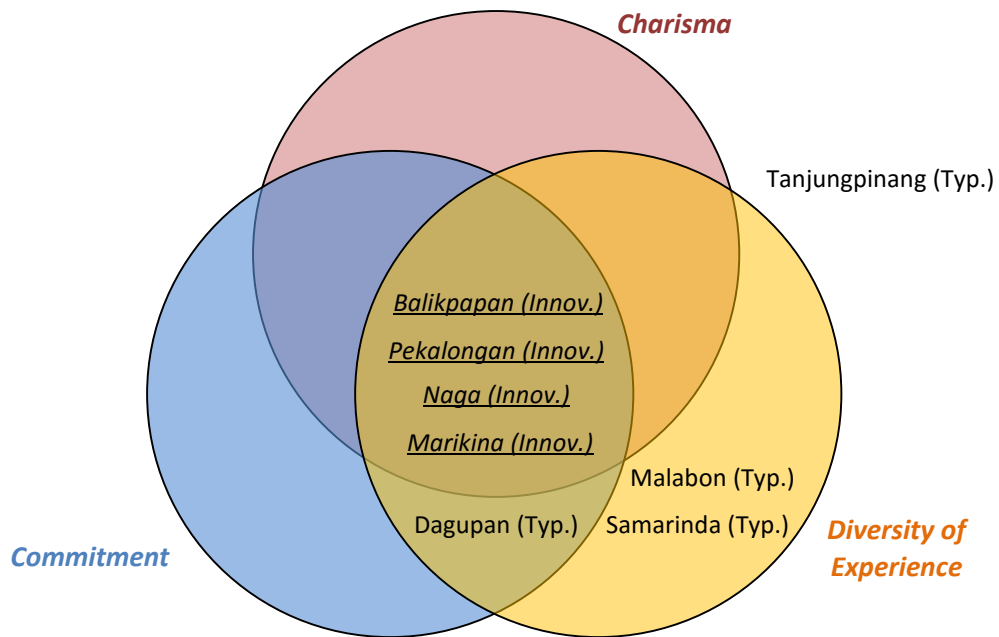
Table 25: Leadership in ‘Innovative’ and ‘Typical’ Cases

Leadership sub-factors	Innovative city governments				Innov. Case Count	Typical city governments				Typic. Case Count
	PH		ID			PH		ID		
	Naga	Mari-kina	Pekalongan	Balikpapan		Dagupan	Malabon	Samarinda	Tanjungpinang	
Charisma	Yes	Yes	Yes	Yes	4/4	No	No	No	No	0/4
Commitment	Yes	Yes	Yes	Yes	4/4	Yes	No	No	No	1/4
Diversity of Experience	Yes	Yes	Yes	Yes	4/4	Yes	Yes	Yes	No	3/4
‘Transformational leadership’?	YES	YES	YES	YES	12/12	YES	NO	NO	NO	4/12

Table 26: Observations linking Leadership with Innovativeness

		Innovative?	
		Yes	No
Transformational leadership?	Yes	<u>Expected observations:</u> Naga, PH Marikina, PH Pekalongan, ID Balikpapan, ID	<u>Unexpected observations:</u> Dagupan, PH
	No	<u>Unexpected observations:</u> <i>None</i>	<u>Expected observations:</u> Malabon, PH Samarinda, ID Tanjungpinang, ID

Figure 15: Cases in relation to sets of Leadership Sub-factors



Charisma

Among the innovative cases, all four have had leaders with strong ability to motivate people and make them follow instructions based on their charisma. For example, in Marikina, PH, this was manifested initially in BF's strong character, and subsequently through MCF's and De Guzman's persuasion skills. In Naga, PH, Robredo and Bongat led by example and were able to mobilize people by combining strong presence as well as motivational and persuasion skills. In Pekalongan and Balikpapan, ID, mayors motivated staff through their energy and intensive communication. Much of what they have shown was in line with the elements of 'transformational leadership', which include charisma, inspiration, intellectual stimulation, and individualized attention (Bass 1990, Bass and Riggio 2006), and which have been argued to increase motivation in public service (Paarlberg and Lavigna 2010)

Among the typical cases, however, none has shown consistent presence of transformative leaders. For example, in Malabon, PH, Samarinda, and Tanjungpinang, ID, mayors from time to time have had issues in fully implementing their visions. For example, in Samarinda, signature projects such as the airport and second bridge over Mahakam River have been stalled for multiple years. Public disgruntlements over the performance of mayors were also easily found throughout the media. Dagupan, PH, had shown stronger presence of charismatic leaders compared to the other three typical cities, but their effectiveness in mobilizing citizens and staff fluctuated over the years, across different leaders. For example, Benjie Lim managed to implement programs successfully in his first set of terms, but not quite so in his second.

Commitment

All four of the innovative cities have had leaders with strong political will and moral standards. For example, leaders of Naga, PH, were known to live frugally in personal and public life, and have not been reported to take direct benefits from their tenure. Such are in line with arguments for prioritizing collective success over personal gains (Sinek 2014), promoting organizational values (Selznik 1984), and having high moral legitimacy (Barnard 1982, Steinbauer et al. 2014). In Marikina, PH, and Balikpapan, ID, leaders were not hesitant to take politically unpopular decisions (similar to the argument set by Heifetz 1994), as shown by programs that induce self-discipline in the former, and policies that ban mining activities in the latter. In Balikpapan, ID, earlier mayors displayed military-level discipline and commitment to their jobs. In Pekalongan, ID, the mayor worked long hours and made sure that he was accessible to the public, intentionally signaling determination and hard-work

(Collins 2001, Molinaro 2013). Leaders of such cities also showed higher credibility with their promises (Gabris, Golembiewski, and Ihrke 2001).

Among the typical cities, only one out of four (Dagupan, PH) showed the presence of committed leaders over multiple periods. Dagupan has had leaders who were known to work hard, ambitious, and were willing to take unpopular decisions.¹⁶⁸ In the three other cases, however, committed leaders were not consistently present over time. For example, in Malabon, PH, leniency and short-term orientation was seen as the predominant norm in managing the city. In Samarinda, ID, the city's leaders had personal interests in the mining industry, and some had been tried in court for corruption cases. In Tanjungpinang, ID, the past mayor showed reluctance to take unpopular decisions, or to push her staff towards higher accountability standards. All the typical cases, in recent history, have experienced the investigation of their mayor or high-ranking officers in cases related to corruption or 'abuse of authority'.¹⁶⁹ These are closely related to the arguments for leaders to have moral and ethical legitimacy (Steinbauer et al. 2014, Ciulla 1998)

Diversity of experience

Among the innovative cases, all four cities have had leaders with experience in large private sector organizations, either in international or national settings. For example, before becoming mayor of Naga, PH, Robredo and Bongat worked in Manila for large companies such as San Miguel Corporation and Megaworld Corporation, respectively. Similarly in Marikina, PH, the Fernandos were managing

¹⁶⁸For example, Benjie Lim raised taxes despite the risk of not being popular politically. However, there were criticisms later that Benjie Lim of Dagupan did not deal with city hall finances in entirely transparent manner

¹⁶⁹ Leadership in Tanjungpinang, ID, and Malabon, PH, however, seems to be changing with the recent election of a younger, more dynamic and forward-looking mayor in 2013. It remains to be seen whether they will make substantial impact on the way the city government is run.

their own AAA-rated construction company before they went into politics. Basyir of Pekalongan, ID, was born into a family of entrepreneurs and was known to be a successful medical doctor. In Balikpapan, ID, mayors such as Yoes and Tjutjup had military backgrounds, while Rizal was a senior editor in the region's largest newspaper. These highlight concepts such as 'lateral entry' (Treverton 2005) and the association of curiosity and resourcefulness with creativity (Judge and Bono 2000, Lee 2013, Zopiatis and Constanti 2012).

Among the typical cases, three out of four cities also have had leaders with diverse professional experience. In Dagupan, PH, Belen Fernandez and Benjie Lim were successful mall owners and developers. The Oretas in Malabon, PH, led an AAA-rated construction company, and some such as Tito Oreta and Len-len Oreta have had the experience of working abroad. The earlier Vicencio of Malabon, however, was more a traditional local politician with local experience. In Samarinda, ID, the earlier Amins had a local political background, but the later Jaang had a career with private, natural resource-based companies in East Kalimantan. Tanjungpinang, ID, was the only case where the mayor's experience was largely based in local public service.¹⁷⁰

Assessing leadership as explanation

All four 'innovative' cases (4/4) have had consistent presence of transformational leadership. Meanwhile, only one out of four 'typical' cases (1/4) have had this condition (Dagupan, PH).

There seem to be notable differences between innovative and typical cases in terms of leader's charisma and commitment. All innovative cases (4/4) had

¹⁷⁰ Tanjungpinang's current mayor (Lis Darmansyah, elected in 2013), however, has a more diverse background in the private sector, with some experience working abroad.

charismatic and entrepreneurial leaders who were effective, while such characters barely or inconsistently appeared among the typical ones (0/4). Similarly, all four innovative cases (4/4) had committed and credible leaders, while only one out of the four typical cases (1/4) showed this to a substantial level. These seem to suggest that charisma and commitment were important factors in explaining innovativeness. Arguments for strong leadership such as these may also be related to a tendency to believe in strong states (Wiarda and Boilard 1999) and self-perception as a paternalistic society (KEMENPANRB 2013). However, there seems to be not much difference between the innovative and typical cases in terms of the leader's diversity of experience.

All four innovative cases (4/4) have had leaders with varied experience outside of the public sector; a condition shared by three of four typical cases (3/4). There seems to be weak association between diversity of experience and innovation; which may be understandable as the literature only showed association between the former and creativity (Zopiatis and Constanti 2012, Judge and Bono 2000, Lee 2013), not innovativeness.

One of the conclusions from this section, that Dagupan had largely transformational leadership but remains a 'typical' city (rather than an 'innovative' one) is an unexpected observation that counters the claim that leadership is associated with innovativeness. It seems that leadership alone was not a sufficient explanation. Also, two particular aspects of leadership (charisma and commitment) may be relevant for further exploration, while diversity of experience seem to have limited explanatory power.

b. Society Factors

Next, this section dissects the sub-factors related to a progressive society, which include: (1) meritocratic norms, (2) organized civil society, and (3) favorable history. The extent to which society-related sub-factors were present in each case is displayed in Table 27. Among ‘innovative’ city governments, all four cases showed presence of a progressive society (Marikina was the only one that did not have a favorable history). In contrast, three out of four typical city governments (all except Dagupan) did not have such qualities in their society. Table 28 shows that seven out of eight cases confirmed the proposed theoretical link between society and innovativeness, while one case (Dagupan, PH) was not.

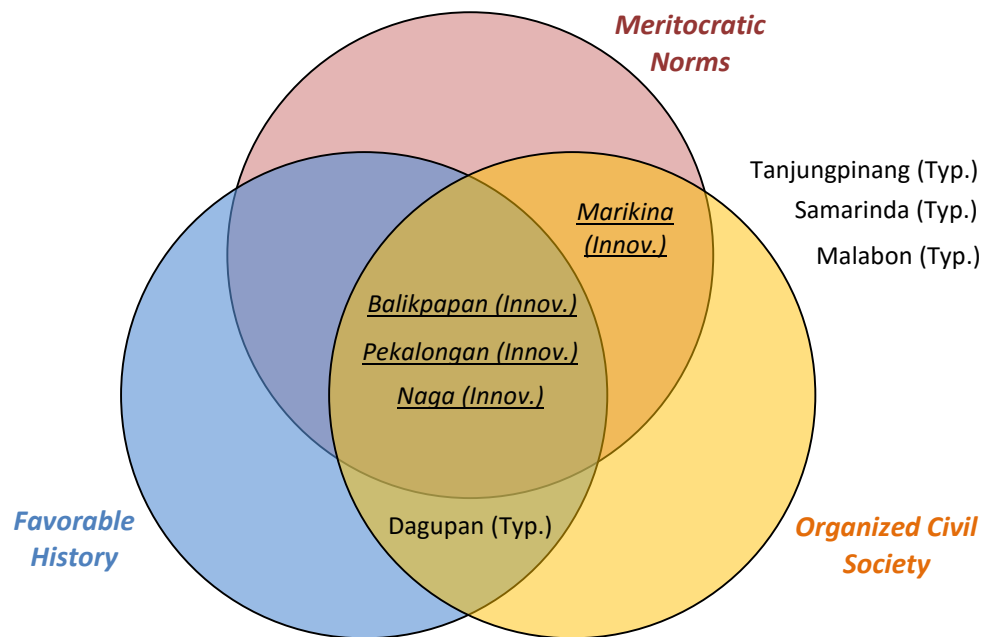
Table 27: Society in ‘Innovative’ and ‘Typical’ Cases

Society Sub-factors	Innovative city governments				Innov. Case Count	Typical city governments				Typic. Case Count
	PH		ID			PH		ID		
	Naga	Marikina	Pekalongan	Balikpapan		Dagupan	Malabon	Samarinda	Tanjungpinang	
Meritocratic norms	Yes	Yes	Yes	Yes	4/4	No	No	No	No	0/4
Organized civil society	Yes	Yes	Yes	Yes	4/4	Yes	No	No	No	1/4
Favorable history	Yes	No	Yes	Yes	3/4	Yes	No	No	No	1/4
‘Progressive society’?	YES	YES	YES	YES	11/12	YES	NO	NO	NO	2/12

Table 28: Observations linking Society with Innovativeness

		Innovative?	
		Yes	No
Progressive Society?	Yes	<u>Expected observations:</u> Naga, PH Marikina, PH Pekalongan, ID Balikpapan, ID	<u>Unexpected observations:</u> Dagupan, PH
	No	<u>Unexpected observations:</u> <i>None</i>	<u>Expected observations:</u> Malabon, PH Samarinda, ID Tanjungpinang, ID

Figure 16: Cases in relation to sets of Society Sub-factors



Meritocratic norms

Among the innovative cases, all four cities have had a society that tends to value hard work over rent-seeking. For example, Balikpapan’s society is known for its industrious work-ethic related to the demands of oil and gas manufacturing, as well as discipline related to the presence of the regional headquarters of the police and armed forces. Pekalongan’s society is largely noted for its entrepreneurial character and strong presence of batik industries that tends to allow them to be more meritocratic and ‘independent’ of public sector money (Hidayat 2003). In Naga, PH, there is a strong sense of community and a calling from religious institutions such as Ateneo de Naga that motivate youth to become ‘men for others’ and uphold the public to higher moral standards. For example, there have been multiple occasions where a person who returned another person’s lost belongings was given personal appreciation from the mayor and covered by the media. Such characters highlight the importance of values such as meritocracy (Mahbubani 2008, Ferguson 2011), trust, and trustworthiness (Keefer and Knack 2005). Marikina, PH,

presents an interesting case where the city used to have issues of low discipline and indifferent attitude among citizens. But such have changed and over the years the people have adopted a more disciplined habit based on an internalized understanding of the public consequences of one's actions.

All four of the typical cities, by contrast, tend to lack the consistent upholding of meritocratic norms. The people of Dagupan, PH, have quite strong demands for business and economic development issues, but such demand is admittedly not as strong for public service and governance issues. Malabon, PH, had difficulty implementing a performance incentive system due to a commonly held norm that expects everyone to be rewarded equally, regardless of their contribution. Such norm, which could be labeled as a form of 'collectivism', may or may not be beneficial for progress (Müller, Mekgwe, and Mhloyi 2013). In Samarinda, ID, rent-seeking activities and political lobbying for personal gains increasingly became socially accepted. In many instances, lax attitude towards work prevailed because 'reward' was not seen as result of hard work, but of personal connections. In Tanjungpinang, ID, there was a tendency to be content with easy life and leniency towards corruption. There were disgruntlements among the population in typical cities toward the public sector, but such voices largely have not materialized in the form of organized advocacy.

Organized civil society

All four of the innovative cases have had a society that is organized into various associations that voice out their interests, almost along the line with arguments presented by Tocqueville, Mayer, and Lawrence (2006) and Putnam (1993). Pekalongan has deep-rooted presence of religious organizations that set standards in community development and public service, and did not hesitate to

march against repressive government policies in the Suharto era (Hidayat 2003). The city also has many micro and small entrepreneurs who are well-organized into cooperatives.¹⁷¹ Similarly, Naga, PH, has been the place where church groups, universities, and the media converged to create an atmosphere of critical intellectualism that made the region one of the nation's hubs of 'people power' movements. Naga is also home to many regional civil society organizations, where Manila-based NGOs established their field offices. Balikpapan, ID, has numerous media outlets, people's organizations, and business chambers which are well-organized. These organizations have close relationship with the city government, but do not hesitate to demand the latter to uphold high performance. They also have good relationship with one another, signifying higher inclusiveness or 'wide radius' of such social networks (Fukuyama 1995). Marikina, PH is an interesting case as it had relatively weak civil society organizations in the past, but city leaders have put in much effort to organize local interest groups into associations and federations.

Among the typical cases, three out of four (all but Dagupan) have not had a society with distinctly organized civil society. In Samarinda, NGOs, community organizations, and business associations remained relatively scattered and prone to elite capture.¹⁷² In Tanjungpinang, ID, community groups such as art and ethnic-based organizations are aplenty, but there was little activity in terms of building political awareness and demanding the government for better services. In Malabon, PH, civil society organizations were weak in the face of predatory slum syndicates that were not hesitant to engage in criminal activities. In contrast, Dagupan, PH, was more similar to Naga and Pekalongan: the city is a meeting place where churches,

¹⁷¹ Pekalongan is home for Indonesia's largest savings and loans cooperative, not only signifying strong organizing skills, but also more egalitarian norms.

¹⁷² The relative success of a recent class action law suit against the government may signal that the civil society is becoming more organized.

universities, and the local media converge and facilitate the people to form local associations and articulate their interests.

Favorable history

Among the innovative cases, three out of four cities (all but Marikina) have had a long history of organized society and meritocratic norms. Pekalongan, ID, for hundreds of years has been a multi-ethnic trading post that emphasized egalitarian and entrepreneurial values above Javanese-style top-down feudalism. Balikpapan, ID, since 1900, has long been a place that attracted processing industries along with relatively more skilled workers who were looking for a better life and adopt a new home. Naga, PH, has been a place where NGOs established bases and opposition groups and activists were trained. Catholic institutions also flourished and built many schools and conducted community service. The innovative cases seem to confirm the argument that history matters, and that they influence the trajectory of a society through slow, evolving paths as well as stochastic changes (North 1990, Mahoney 2000). The exception was Marikina, PH, which did not have a favorable distant history. The city was a vibrant cluster of shoe manufacturing for many decades, but it was poorly managed, with high crime and unruly behavior among the population. Substantial changes to Marikina only started in the early 1990s, coinciding with the arrival of Fernando.

Among the typical cities, three (all but Dagupan) have not had historical paths favorable for meritocratic norms. Rather, their paths tend to be supportive of rent-seeking. Tanjungpinang, ID, used to be a vibrant port town, but became an extractive colonial and administrative post of the surrounding Riau Islands. Samarinda, ID, was similarly an important city near the Mahakam delta, but its history is characterized by feudalistic rent-seeking which has persisted since the

times of the sultanate, maintained by the Dutch colonial government, and has endured until the current era (Magenda 1991). These explanations seem to be in line with arguments that distant history matter, including how colonialism took shape (Acemoglu, Johnson, and Robinson 2001), and how royal families and feudalistic traditions from hundreds of years ago have endured (Day 2003, Nordholt 2004). Malabon, PH, arguably had a favorable distant history as the NCR's trade and processing center of grains. However, subsequent flight of original residents and rise of extractive crime syndicates have made the city teeming with recent immigrants who were not smoothly integrated into the community. The exception is, again, Dagupan, PH, which has been the most prominent hub of the Ilocos region for many centuries, allowing the city to attract religious, educational, financial, and media institutions for many decades.

Assessing society as explanation

All four 'innovative' cases (4/4) have had the conditions of a progressive society, while only one out of four 'typical' ones (1/4) have this character (again, Dagupan, PH).

There were notable differences between innovative and typical cases in the three sub-factors. All four innovative cases (4/4) had meritocratic norms and organized civil society groups. Meanwhile, none (0/4) of the typical cases had a distinctly meritocratic norm that pervades the private and public sectors, and only one (Dagupan) had vibrant and organized civil society groups. Also, three of the innovative cases (all but Marikina, PH) had a favorable history, while only one of the typical cases (Dagupan) shared this characteristic. Marikina showed that while history cannot be changed, one could in fact change the trajectory of a society, and

the city did so through consistent transformation of norms, values, and beliefs. How beliefs change, however, remains an ill-understood process (North 1981, 2005).

Again Dagupan stood out as an exception: it largely showed the characteristics of a progressive society, but remains a 'typical' city (rather than an 'innovative' one). This suggests that society may not a sufficient explanation for innovativeness. This section also suggests that all three sub-factors of progressive society (meritocratic norms, organized civil society, and favorable history) are potentially relevant to be explored in future studies of innovativeness.

It should be noted that three of the innovative cases (all but Pekalongan), have had a single line of political leadership that dates back to the late 1980s, where subsequent mayors were supported by the preceding mayor. This is connected to the notion of 'recent history' and leadership continuity which has likely allowed the process of accumulated learning. The latter is argued to be conducive to continuous, incremental innovation (Tidd, Bessant, and Pavitt 2005).

c. Transaction Cost Factors

The extent to which each case fulfils the explanatory factors related to transaction costs is explained next. Here, transaction cost is described as an aggregate of information cost, negotiation cost, and enforcement cost sub-factors. Therefore, before synthesizing how each case is associated with the presence of efficient transaction costs, the various sub-factors of transaction costs will be dissected first.

Information cost

First the presence or absence of low information costs across the cases is examined across the eight cases (see Table 29). All four of the innovative cases had

the presence of low information cost, which include: (1) access to ICT and media, (2) networking opportunities, and (3) opportunities to travel and be familiar with other cities. Showing a similar trend, three out of four typical city governments (all but Tanjungpinang, ID) also faced favorable information cost. This seems to imply that information costs, when considered on its own, may not be very much related to innovativeness.

Table 29: Information Costs in ‘Innovative’ and ‘Typical’ Cases

Information Cost Sub-factors	Innovative city governments				Innov. Case Count	Typical city governments				Typic. Case Count
	PH		ID			PH		ID		
	Naga	Marikina	Pekalongan	Balikpapan		Dagupan	Malabon	Samarinda	Tanjungpinang	
Access to ICT	Yes	Yes	Yes	Yes	4/4	Yes	Yes	Yes	No	3/4
Networking opportunities	Yes	Yes	Yes	Yes	4/4	Yes	Yes	No	No	2/4
Travels & familiarity w/ other cities	Yes	Yes	Yes	Yes	4/4	Yes	No	Yes	No	2/4
‘Low Information Cost’?	YES	YES	YES	YES	12/12	YES	YES	YES	NO	7/12

Access to ICT and media

Among the innovative cases, all four have had relatively good access to ICT and the media that allowed the mayor and city leaders to find references from other cities which could be emulated. For example, Balikpapan, ID, hosts PT. Telkom’s regional headquarters and is a place where national and local media outlets thrived. Telkom is currently installing 1,000 WiFi.id hotspots throughout the city. In many cases, mayors were strong proponents of expanding ICT use and access in their city. Naga, PH, was among the first cities in the country to embark on large-scale government computerization and e-government programs. They were also among the first to utilize ICT as a tool to improve governance, which has continued to this day through creative social media strategies. Department heads in Marikina, PH,

actively used the Internet to search for best practices, references, and benchmarking. Pekalongan, ID, developed a Local Area Network connecting city government offices, and similarly provided community halls with internet connectivity. These seem to highlight arguments on the importance of ICT on public innovation (Bekkers, Duivenboden, and Thaens 2006, Hale and Project 2011)

Three of the four typical cases (all but Tanjungpinang, ID) had similarly favorable access to ICT and the media. Samarinda, ID, hosts many higher learning institutions and thrived on private sector support to develop ICT infrastructure. For example, WiFi points are were installed throughout the city and political leaders have a social media presence, though outdated. Dagupan, PH, is the regional hub for media outlets, and has laid out relevant infrastructure to support the media, universities, and business process outsourcing companies. City leaders and officials in Malabon, PH, also had good access to the Internet and media, though largely after the development of a new city hall. Still, internet use among Malabon's leaders is mostly limited to finding technical references. The only exception in the group was Tanjungpinang, ID, where city leaders were not very keen on expanding ICT infrastructure and applications (at least until 2013), and considered them less relevant to the society's skill level.

Networking Opportunities

All four innovative cases have had extensive networking opportunities with other city governments, the national government, or local stakeholders. These networks pointed them to new ideas and resources, and were part of their learning processes (Campbell 2012, Considine, Lewis, and Alexander 2009). For example, leaders of Pekalongan and Balikpapan, ID, as well as Naga and Marikina, PH, were actively involved in horizontal inter-city networks at the national level (such as

APEKSI and the LCP) and the international level (such as CityNet and UCLG Asia Pacific). Such networks helped cities' leaders get curated and relevant information from other mayors (Marsden et al. 2011). Mayors were also involved in vertical networks and were well connected with provincial and national officials. Marikina's mayors have had access to key national government leaders, which helped the city clarify some issues with line ministries in the context of conducting 'top-down innovations' (Windrum and Koch 2008). In Naga, PH, other than the opportunities to engage in vertical and horizontal networks, city leaders also have had close access to a network of local activists and NGO figures in the form of 'epistemic communities' (Haas 1992, Simmie 1997).

Among the typical cases, two out of four cities, namely Dagupan and Malabon (both in the Philippines), also had plenty of networking opportunities. Mayors Fernandez and Lim of Dagupan, PH, as well as Mayors Oreta of Malabon, PH, were well connected with national-level officials, politicians, and private companies who could help the city implement new ideas. By contrast, city governments in Indonesia networked to a more limited extent. Samarinda, ID, was also involved in networks, but limited to those at the sub-national level. Meanwhile, Tanjungpinang, ID, for the most part, had minimal involvement in intercity networks. Both cities' relationship with the national and province governments were also limited, and city leaders have had difficulty in securing help from their networks to deal with issues such as stalled development projects.

Travels and familiarity with other cities

In all four innovative cases, city leaders had conducted numerous travels to other cities (nationally and internationally), and were well-informed about innovative programs in other cities that could be referenced or replicated. For

example, mayor of Pekalongan, ID, coined the term 'ATM' (Indonesian acronym for Observe, Replicate, Modify) and encouraged his key staffs to visit other cities, and set a target that their city has to be better in implementing such program after two years of learning. This has some similarity with the 'fast-follower' strategy typically used in the private sector (Jaruzelski and Dehoff 2007), as well as the notion of 'learned' or 'imitative' innovation (Lee and Rodríguez-Pose 2013), and 'urban inter-referencing' (Phelps et al. 2014),

In general, mayors of innovative cities were well-traveled: they were regularly invited to national or international conferences, or have conducted substantial travels prior to becoming mayor. For example, BF of Marikina, PH, would take notes and measurements from his travels and conduct brainstorming sessions with his staff once back at the office. He also conducted direct learning from other cities, such as Subic Bay, where he took almost all his staff, including street cleaners, to experience how clean the former U.S. military base was. This harks back to the argument that policy transfer is more likely to happen among places that are geographically near (Kern, Koll, and Schophaus 2007) as direct visits provide inspiration and reduce uncertainties (Rose 1993). Robredo and Bongat of Naga, PH, were similarly well-traveled and often invited to events in other cities, nationally or abroad.

Among the four typical cases, two leaders, namely those of Dagupan, PH, and Samarinda, ID, have been consistently familiar with good programs in other cities. Lim and Fernandez of Dagupan were successful retail business owners and have traveled extensively, including to cities with successful public services or programs. Samarinda's leaders have also traveled to many places, though mostly in closer domestic and regional destinations. The latter has looked to Singapore as

inspiration, but only for referencing physical appearances of parks and open spaces. The two other typical cases, however, did not show consistent familiarity with or referencing of other cities' innovative programs. For example, leaders of Malabon and Tanjungpinang considered many successful programs from other cities as irrelevant due to perceived unique condition of their city, as well as lack of funding.

Negotiation cost

Next, we examine whether innovative and typical city governments had faced low negotiation costs. Table 30 shows that all four innovative city governments showed presence of low negotiation costs, namely: (1) good relationship with city council, (2) good relationship with citizens groups, and (3) healthy rivalry with their political opponents. Among the typical cases, two out of four (Samarinda and Tanjungpinang, ID) faced favorably low negotiation costs, while the other two (Dagupan and Malabon, PH) did not.

Table 30: Negotiation Costs in 'Innovative' and 'Typical' Cases

Negotiation Cost Sub-factors	Innovative city governments				Innov. Case Count	Typical city governments				Typic. Case Count
	PH		ID			PH		ID		
	Naga	Mari-kina	Pekalongan	Balikpapan		Dagupan	Malabon	Samarinda	Tanjungpinang	
Relationship with city council	Yes	Yes	Yes	No	3/4	No	Yes	Yes	Yes	3/4
Relationship with citizens	Yes	Yes	Yes	Yes	4/4	No	No	No	No	0/4
Healthy political rivalry	Yes	Yes	Yes	Yes	4/4	No	No	Yes	Yes	2/4
'Low Negotiation Cost'?	YES	YES	YES	YES	11/12	NO	NO	YES	YES	5/12

Relationship with city council

Three out of four innovative cases (all but Balikpapan) have had largely supportive relationship with their city councils. This was not always the case, though. At the beginning, Robredo of Naga and Fernando of Marikina started with a non-cooperative city council that blocked most of their proposals, which harks back to the importance or relevance of the 'veto players' argument (Tsebelis 2002). However, they managed to turn the council in their favor from their second political term onwards by having their political slate winning most (if not all) city councilor positions for multiple periods. Currently Naga and Pekalongan conducted weekly breakfast meetings between the mayor and city councilors. The city council typically trusted the mayor to conduct innovations, but by starting with small-scale experiments to see if it would work, which is related to the notion of risk management (Bhatta 2003). In Indonesia, Basyir of Pekalongan, ID, did not belong to a majority political party, but after being elected he quickly built a coalition for his party such that he had overwhelming political support in the council. These advantages, however, did not result in these mayors always getting what they wanted. Healthy debates, disagreements, and even vetoes still took place, but the extent to which politics played a part has been minimized. Balikpapan, ID, was the odd one among the innovative cases as their mayors typically encountered critical responses from city councilors who would approach the debate based on political considerations. This seems to show that the 'veto players' argument applied to a larger extent in Balikpapan, or highlight another argument that veto players' role tend to be associated with cohesion of their political parties and strength of the current regime (West and Lee 2014).

Among typical cases, similarly three out of four city governments (all but Dagupan) have had good relationship with the city council. In Samarinda and Tanjungpinang, ID, various political parties built large coalitions around the incumbent mayor (or vice mayor), hoping to capitalize on his or her popularity among the voters, as well as his/her ability to mobilize public resources. This seems to confirm the argument for weak political parties vis a vis strong leadership personalities (Kasuya 2009). Such political affiliation typically stopped once election was over and a 'quid-pro-quo' relationship between the executive and legislative follows. In Samarinda and Tanjungpinang, ID, as long as this relationship is maintained, typically mayors did not face objections from the city council. In Malabon, PH, the city council has been tipped in favor of the ruling Oreta family for multiple periods, providing them with low political transaction cost to make most policy decisions. Some opposition councilors had been consistently present, but similar agreements could typically be achieved. The exception was Dagupan, PH, in which the city council had been largely unstable, prone to tipping sideways in favor of opposing political leaders.

Relationship with citizens groups

Among the innovative cases, all four have managed to build good working relationship with local stakeholder groups. Naga city government has been working closely with civil society organizations since Robredo came into power in 1989, and since then city officials have consulted intensively with NGOs and POs. Leaders of Pekalongan, ID, involved 'ABCG' stakeholders (academics, businesses, community groups, government) in sector-based councils in similar notion to 'issue networks' (Hecló 1978). Meanwhile, Balikpapan mayors held weekly consultation sessions over coffee (and monthly over dinner) to solicit input and feedback from the city's

interest groups and people's organizations. Interaction with various stakeholders in 'common zones' such as these (Hambleton and Howard 2013) is relevant to the notion of 'bisociation' (recombining indirectly-related knowledge) often associated with creativity and innovativeness (Koestler 1964). In Marikina, PH, however, relationship with citizens group did not start smoothly. BF's disciplinarian programs initially faced opposition from local interests, but ultimately his administration was able to convince constituents of the value of such programs. After BF's era, Marikina embarked on a more consultative approach which was closely related to notion of co-creation (Alves 2013, Prahalad and Ramaswamy 2004), typically associated with 'need-seeker' and 'first-mover' companies in the private sector (Jaruzelski and Dehoff 2007).

None of the typical cases has built a continuously harmonious working relationship between the mayor's office and citizens groups. In Malabon, PH, the city government has good relationship with the Urban Poor Alliance, but was not able to deal with powerful local syndicates that extract illegal rent from squatters. In Dagupan, PH, politics often influenced citizens groups either to support or oppose a mayor's program, resulting in polarization among the citizens. In Tanjungpinang and Samarinda, ID, mayors admittedly involved citizens groups in policy making, but such involvement was largely limited to formal processes. Effective citizens' involvement was minimal and some policy decisions such as the granting of coal mining permits were made in what DiGaetano and Klemanski (1993) would call exclusive 'urban regimes'. In this case, such regime involved local government elites, local land owners, and Jakarta-based investors. Harsh critiques from civil society groups towards the city government can be easily found in the media, signaling issues in the relationship between citizens and their leaders.

Healthy political rivalry

Among the four innovative cases, all mayors have faced situations where political rivalry did not disrupt the day-to-day functions of the executive in meaningful ways. In Pekalongan and Balikpapan, ID, opposition leaders and their supporters typically left the ruling mayor to do his or her job as they consolidate their powers for the subsequent election. Basyir of Pekalongan made effort to reach out to his political opponents after winning the election and offered several avenues in which they could work together in non-political contexts, i.e., 'reconciliation' (Schaap 2005). In Naga and Marikina, PH, mayors were able to keep political rivals at bay by consistently winning the election by large margins, thus managing rivalry by domination. For example, in Marikina, one of BF's campaign slogans was 'Let's achieve landslide victory to avoid being cheated!' Meanwhile, in Naga, Robredo's slogan was 'All or nothing!' calling for those who supported him to also vote for his affiliated city councilors, thus preventing the opposition from winning any political positions.

Among the typical cases, leaders in two cities had a healthy rivalry with their opponents, while those in the other two did not. Intense rivalry was present in Dagupan and to a lesser extent, in Malabon (both in the Philippines). This proved to be detrimental in Dagupan, with accusations of cheating and corruption being raised by one mayor against the former, and the canceling of previous programs when a new mayor takes seat.¹⁷³ In Malabon, there were on-street clashes between supporters of different mayors in the past, as well as sidelining of city hall officials and employees in favor of those related to certain clans or political affiliations. None

¹⁷³ This, however, seems to have been reduced substantially in Dagupan since 2013, where the newly elected vice mayor (Brian Lim) had announced that he was going to let then newly elected mayor (Belen Fernandez) to govern without 'obstructionist' moves from his side.

of the two Indonesian cases, however, suffered from disruptive rivalry at the leadership level. For the most part, political rivalry took place only during elections, where the losing candidate tend to not challenge the results and did not spend much effort to operationally challenge the current leader's policies and programs.

The negotiation costs analysis seems to provide conflicting arguments on the role of democracy for innovation. Veto players, citizens groups, and political rivals are inherent parts of a well-functioning democracy, but here it appears that they might pose some challenges to innovativeness. The key seems to lie on the quality of democracy. In lower quality democracy, legislative members and citizens groups could be passive out of perverse political interests or apathy. In a functioning democracy, they could constantly scrutinize the executive in distrust and hold things in status quo. However, in a more mature society, the executive-legislative relationship seems to have found a balance between trust and scrutiny, where the executive is given 'elbow room' to 'innovate' through small scale experiments, and scrutiny is conducted naturally through frequent interactions.

Enforcement cost

Third, we examine whether innovative and typical city governments had faced low enforcement costs. As per Table 31, all four innovative city governments managed to face low enforcement costs, which include: (1) capable civil servants and bureaucracy, (2) opportunity to conduct capacity building, and (3) a consistent system of incentives and disincentives. Among the typical cases, two out four (Samarinda and Tanjungpinang, ID), faced low enforcement costs, while the other two (Dagupan and Malabon, PH) did not.

Capable Civil Servants

Among the innovative cases, all four have had relatively capable civil servants for many years. Mayors and heads of departments in of Naga and Marikina, PH, overwhelmingly believed in the capability and work ethic of their staff. However, this condition was not the case at the beginning of decentralization. In the early 1990s, only a few staff had this favorable condition, but many of those who do have remained in the government until today. Moreover, others have improved their capability over the years. Pekalongan and Balikpapan, ID, similarly have had capable civil servants. In Pekalongan, bureaucratic capacity started low in the early 2000s, but improved quickly with the identification of the right people for the appropriate jobs, and adoption of ‘clean’ and meritocratic recruitment (similar to that argued by Rauch and Evans 2000). Balikpapan has had a situation of good government for several decades that it was difficult to pinpoint the start of the transformation.

Table 31: Enforcement Costs in ‘Innovative’ and ‘Typical’ Cases

Enforcement Cost Sub-factors	Innovative city governments				Innov. Case Count	Typical city governments				Typic. Case Count
	PH		ID			PH		ID		
	Naga	Mari-kina	Peka-longan	Balik-papan		Dagu-pan	Mala-bon	Sama-rinda	Tanjung-pinang	
Capable civil servants	Yes	Yes	Yes	Yes	4/4	No	No	Yes	No	1/4
Capacity building activities	Yes	Yes	Yes	Yes	4/4	Yes	No	Yes	Yes	3/4
Incentives & disincentives	Yes	Yes	No	Yes	3/4	No	No	Yes	Yes	2/4
‘Low Enforcement Cost’?	YES	YES	YES	YES	11/12	NO	NO	YES	YES	6/12

Among the typical cases, only one has had relatively capable civil servants, namely Samarinda, ID. Here, educational qualification of civil servants is arguably better than that of the private sector, with most department heads holding a

master's degree, and some a Ph.D. However, in the other three cities, conditions were different. In Tanjungpinang, ID, there was a resounding theme regarding lack of civil servants' quantity and quality, with existing ones claimed to hold a largely parochial outlook. In Dagupan and Malabon, PH, city leaders tended to give less than favorable assessments of their staffs' technical capacity and commitment to serve.

Capacity Building Activities

All four of the innovative cases have had the opportunity to spend considerable effort in building the capacity of their staff. In Naga, PH, such capacity building was initially institutionalized in large scale through the Productivity Improvement Program in the 1990s, where insights and techniques from the private sector were utilized to increase employee productivity and motivation. In a similar adoption of New Public Management principles that 'borrows' private sector methods into the public sector (Pollitt and Bouckaert 2011), city leaders in Pekalongan, ID, conducted leadership and entrepreneurship trainings that also built an attitude of 'service excellence' among civil servants. In Marikina, PH, staffs were often sent to attend trainings, and BF himself would conduct lectures and instill a sense of urgency and motivation through direct interactions. In Balikpapan, ID, mayors and senior department heads similarly modeled 'good behavior' and 'high motivation' among the staff, and interacted with them closely.

Three out of the four typical cases (all but Malabon) similarly conducted numerous capacity building activities for their staff. In Samarinda and Tanjungpinang, ID, the city government has conducted various leadership classes, sent staff to formal trainings with the central government, and facilitated staffs to pursue higher education. In Dagupan, PH, one mayor sent staffs to various city branding and computer trainings, while another personally conducted orientations

and coaching to key staffs of various city departments. However, in Malabon, PH, the city seemed to be facilitating less training than the others due to perceived difficulty in securing the required financial resources. The extents of which these trainings achieved objectives or improved performance, however, remain understudied.

Incentives and Disincentives

Among the innovative cases, three out of four (all but Pekalongan, ID) have implemented a comprehensive performance incentive system, covering monetary or career-based rewards. The governments of Naga and Marikina, PH, have conducted regular staff performance ratings and handed bonuses to high-performing employees (where the same were not given to those with low performance). In Naga, this was started also as part of the previously mentioned Productivity Improvement Program. In Balikpapan, ID, disciplinary issues could lead to pay cut while good performance is rewarded by travels and promotions. Pekalongan, ID, on the other hand, did not use monetary or career-based incentives; it rewarded performance, rather, with personal trust from the mayor and opportunity to take on more responsibilities.

Among the typical cases, two out of four cities (Samarinda and Tanjungpinang, ID) have implemented an employee performance incentive system. These cities utilized monetary incentives and disincentives for their staff. Tanjungpinang also announced 'best' and 'worst' sub-districts as well as 'employee of the month' type of acknowledgements. The city also provided personal monetary rewards in the form of 'development fund', just as Samarinda provided 'income improvement benefits' for those who fulfilled their key performance indicators. Meanwhile, such incentive schemes were not present, or not consistently applied, in

Dagupan and Malabon, PH. In Dagupan, selective performance bonuses were conducted on and off, according to the mayor’s policy at the time. Meanwhile, Malabon’s leaders faced constraints in handing out rewards to selected staff only. Part of the constraint is due to lack of resources, but also social norms that discourage giving rewards only to selective persons. However, the extents of which such incentives work to improve performance and encourage more innovations (i.e., as argued by Gertler and Vermeersch 2012, Newman, Raine, and Skelcher 2001) have not been openly studied.

Synthesizing and Assessing Transaction Costs

After describing how the sub-factors of information cost, negotiation cost, and enforcement cost were present (or absent) in the eight cases, the analysis is now aggregated to achieve a consolidated notion of transaction cost. Table 32 shows the number of ‘Yes’ occurrences out of the possible number of sub-factors.

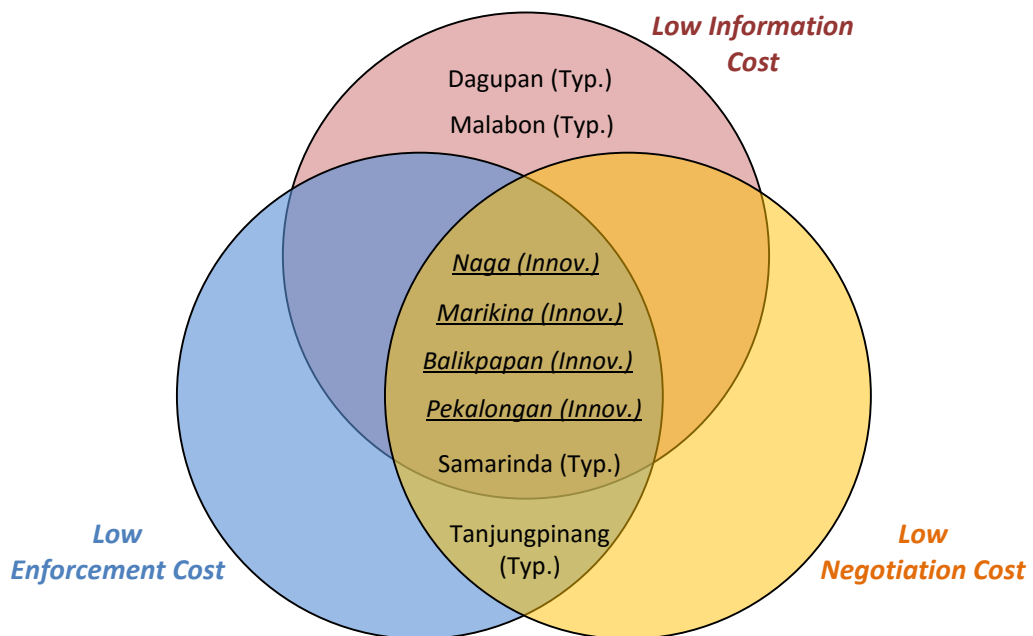
Table 32: Transaction Costs in ‘Innovative’ and ‘Typical’ Cases
[Aggregate of Information, Negotiation, and Enforcement Costs – Tables 29, 30 ,31]

Presence of Sub-factors related to...	Innovative city governments				Innov. Case Count (of 12)	Typical city governments				Typic. Case Count (of 12)
	PH		ID			PH		ID		
	Naga	Mari-kina	Pekalongan	Balikpapan		Dagupan	Malabon	Samarinda	Tanjungpinang	
Low Information Cost (of 3)	3	3	3	3	12	3	2	2	0	7
Low Negotiation Cost (of 3)	3	3	3	2	11	0	1	2	2	5
Low Enforcement Cost (of 3)	3	3	2	3	11	1	0	3	2	6
Sub-factor Count	9/9	9/9	8/9	8/9	34/36	4/9	3/9	7/9	4/9	18/36
‘Low Transaction Cost’?	YES	YES	YES	YES		NO	NO	YES	NO	

Table 33: Observations linking Transaction Cost with Innovativeness

		Innovative?	
		Yes	No
Efficient Transaction Costs?	Yes	<u>Expected observations:</u> Naga, PH Marikina, PH Pekalongan, ID Balikpapan, ID	<u>Unexpected observations:</u> Samarinda, ID
	No	<u>Unexpected observations:</u> None	<u>Expected observations:</u> Dagupan, PH Malabon, PH Tanjungpinang, ID

Figure 17: Cases in relation to sets of Transaction Cost Sub-factors



All four innovative cases showed notable presence of efficient transaction costs. Naga and Marikina, PH, obtained nine ‘Yes’ out of nine sub-factors, while Pekalongan and Balikpapan, ID, almost similarly collected eight ‘Yes’. In contrast, three of the typical ones (all but Samarinda, ID) obtained relatively low occurrence of ‘Yes’. Tanjungpinang, ID, Dagupan, and Malabon, PH, obtained – respectively – four, four, and three ‘Yes’. Samarinda, ID, however, managed to collect seven ‘Yes’

out of nine possible sub-factors. This seems to imply that Samarinda, contrary to the initial theoretical expectation, largely faced efficient transaction costs of governing, despite not being identified as an ‘innovative’ case.

In terms of information costs, the innovative cases collected 12 ‘Yes’ out of a possible 12, while the typical cases collected only seven (see Table 32). A difference of five occurrences out of a possible 12 is quite notable. However, when we break the analysis into information cost, negotiation cost, and enforcement cost, however, there seems to be slightly weaker difference between the innovative and typical cases (see Table 34). Between the innovative and typical cases, there was a difference of two ‘Yes’ for each of networking activities and travels and familiarity with other cities. However, for Access to ICT, the difference is only one - which seems to suggest that its explanatory power is limited.

Table 34: Comparing transaction cost factors between Innovative and Typical cases

	Sub-factors related to Transaction Costs	Innovative Case Count	Typical Case Count
A	Low Information Cost	12/12	7/12
	1. Access to ICT	4/4	3/4
	2. Networking activities*	4/4	2/4
	3. Travels & familiarity with other cities*	4/4	2/4
B	Low Negotiation Cost	11/12	5/12
	1. Relationship with city council	3/4	3/4
	2. Relationship with citizens*	4/4	0/4
	3. Healthy political rivalry *	4/4	2/4
C	Low Enforcement Cost	11/12	6/12
	1. Capable civil servants*	4/4	1/4
	2. Capacity building activities	4/4	3/4
	3. Incentives & disincentives	3/4	2/4

*: Possibly a notable difference between innovative and typical cases

In terms of negotiation costs, innovative cases collectively obtained 11 ‘Yes’ out of a possible 12, while typical cases only secured five. The difference of six occurrences out of 12 is quite notable. However, not all sub-factors of negotiation

costs may be similarly important. There was no substantial difference between the innovative and typical groups in terms of having a good relationship with city council (three out of four cases in each group had this characteristic). This seem counter-intuitive to the 'veto players' argument. However, in this research, such favorable relationship between leaders and veto players could be achieved through multiple means, including short-term quid-pro-quo relations (which applied in three of the four typical cities), and benign agreement between city councilors and the mayor to put aside political interests for the sake of the city (which applied in three of the four innovative ones).

There were, however, stronger differences between the innovative and typical cases in terms of relationship with citizens groups. All four of the innovative cases (4/4) fulfilled this condition consistently, while all four of the typical cases did not (0/4). This seems to imply that this sub-factor is an important one in explaining innovativeness. In terms of having healthy rivalry with political opponents, all four innovative cases (4/4) fulfilled this condition, either by winning landslide elections (Naga and Marikina, PH), or through efforts to minimize or manage the rivalry (Pekalongan, ID). It is quite interesting to note that two typical cases (2/4) that fulfilled this condition were Indonesian cases, and for them having healthy political rivalry was a 'given' factor. Meanwhile, the two Philippine typical cases (2/4) faced disruptive political rivalries. Some aspects of negotiation costs cannot be not cleanly separated from leadership and society factors. For example, the *relationship* between leaders and citizen groups, is closely related to personal characters of the leaders and to the institutions of the society. This possible contamination of constructs was highlighted earlier in Chapter 3 under validity issues.

In terms of enforcement costs, innovative cases collected 11 ‘Yes’ out of a possible 12, while typical cases secured six. The difference of five occurrences out of 12 is also notable. The strongest sub-factor is most likely the presence of a capable civil servant or bureaucracy. All four innovative cases (4/4) fulfilled this condition, while only one of the typical cases did (1/4): Samarinda, ID. This seems to imply that personal and institutional capability could be a factor in explaining innovativeness. However, there was only a difference of one case between the innovative and typical groups in terms of conducting capacity building activities (4/4 as opposed to 3/4), as well as in terms of having an effective performance incentive system (3/4 as opposed to 2/4).

This section concludes that all four innovative cases have had low transaction costs, but so does one of the typical cases: Samarinda. This argues that the proposed transaction costs argument may matter, but not to a full extent. There are possibly other reasons why Samarinda remained a ‘typical’ city (rather than an ‘innovative’ one), despite its low transaction costs of governing.

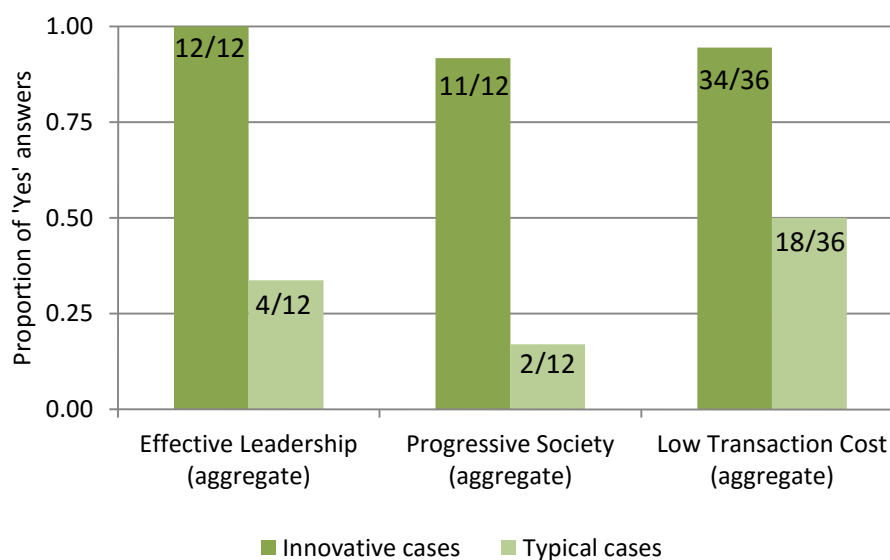
d. Assessment

Cross-case comparison has allowed us to identify patterns of how the explanatory factors of leadership, society, and transaction costs were present or absent in ‘innovative’ and ‘typical’ city governments. In general, we could argue that there are some evidences to suggest that efficient transaction costs, transformational leadership, and progressive society may be associated with innovativeness. All four ‘innovative’ cases showed stronger presence of the explanatory factors compared to ‘typical’ cases (see Figure 18).

More specifically, Figure 18 seems to show some differences in the ‘explanatory power’ of each factor. Innovative cases seem to have stronger presence

of transformational leadership (12/12) and progressive society (11/12) compared to the typical cases (4/12 and 2/12, respectively). There is also a difference in the presence of favorable transaction costs among innovative cases (34/36) compared to the typical cases (18/36), but arguably not as strong when compared to leadership and society factors. These are initial observations based on limited number of cases.

Figure 18: Comparing Explanatory Factors between Innovative and Typical Cases



However, there were two unexpected observations. First, Dagupan, PH, arguably had favorable society and leadership, but was not considered as 'innovative'. Complementing the conventional leadership and society explanations with the proposed transaction cost framework, it was found that Dagupan lacked having favorable transaction costs. Second, Samarinda, ID, arguably faced efficient transaction costs, but was similarly not an 'innovative' case. Again, by examining transaction costs together with leadership and society, it was found that Samarinda lacked clear presence of favorable leadership and society.

By addressing several possible ('rival') explanations, the cross-case analysis suggests that none of the three explanations were sufficient to explain

innovativeness on its own. The Dagupan case even seems to suggest that having two explanatory factors (leadership and society) was not enough. Samarinda, similarly, show that having favorable transaction costs were not sufficient. Instead, the eight cases in this research tend to argue that innovativeness was more attainable when all three conditions were fulfilled.

Such arguments, however, was made based on a consolidated time-frame that possibly show associations, but definitely not causal relationship. To better explain the trends, the sequence in which explanatory factors present themselves in innovative and typical cases need to be viewed through a historical analysis. This is offered in the following section by comparing the different time periods that each case went through.

2. Comparing Innovativeness over Time

The second comparison aims to analyze the extent to which efficient transaction costs, transformational leadership, and progressive society have been present (or absent) across the eight cases in different time periods.

Table 35 presents a truth table based on Qualitative Comparative Analysis that lays out 16 possible configurations of how innovativeness may relate to each of the explanatory factors. However, not all possible configurations may be justified by the presence of an actual case ('observation'). The configurations were concluded by analyzing the historical narratives as told by interviewees and from casual conversations, coupled with media articles and formal documents from the respective era. The time frames (in brackets) correspond to the different periods of past mayors.

Table 35: Truth Table with Configurations of Cases

Inno- vative?	Progres- sive Society?	Effective Leader- ship?	Efficient Trans- actions?	# of Obser- vations	Configu- ration	Actual Observations (cases)	
Y	Y	Y	Y	4	A	1. Balikpapan (start until 2014) 2. Naga (1992-2014), 3. Pekalongan (2006-2014) 4. Marikina (2007-2014)	
			N	0			
		N	Y	0			
			N	0			
	N	Y	Y	1	B	1. Marikina (1995-2007)	
			N	0			
		N	Y	0			
			N	0			
N	Y	Y	Y	0			
			N	3	C	1. Dagupan (2001-2014) 2. Naga (1989-92), 3. Pekalongan (2005)	
		N	Y	0			
			N	3	D	1. Dagupan (start until 2001) 2. Naga (start until 1989) 3. Pekalongan (start until 2005)	
	N	Y	Y	0			
			N	1	E	1. Marikina (1992-95)	
		N	Y	Y	1	F	1. Samarinda (start until 2014)
				N	3	G	1. Tanjungpinang (start until 2014) 2. Malabon (start until 2014) 3. Marikina (start until 1992)

a. Configurations of Cases

Table 35 identified seven configurations in which actual observations were present, namely: Configuration A (four observations), B (1), C (3), D (3), E (1), F (1), and G (3). Two of such configurations (A and B) show the presence of ‘innovative’ cases, while the remaining five configurations (C, D, E, F, and G) show the presence of ‘typical’ cases.

Configuration A refers to the condition where the city was recognized as ‘innovative’, and had favorable presence of all three explanatory factors: transformational leadership, progressive society, and efficient transaction costs. All

four cases of present-day innovative city governments fall under this configuration. Balikpapan, ID, has had these conditions for multiple decades, even since before Indonesia's decentralization started. However, the three other cities (Naga, Pekalongan, and Marikina) reached this stage through a process of local governance transformations that will be further explained in the following section (Types of Change).

Configuration B is the condition where the city government was recognized as 'innovative', had favorable leadership and transaction costs, but did not have the characteristics of a progressive society. The only city that fit into this configuration was Marikina³, starting from BF's second term in 1995 until approximately 10 afterwards. This was the period when the city's mayors (BF and MCF) were leading innovative programs with support from the city's stakeholders (including the city council) while simultaneously building a more progressive society (i.e., institutionalizing meritocratic norms and community organizing). However, at this point it could be argued that such norms and organizations have yet to become a strong feature of Marikina's society.

The following five configurations are associated with 'typical' cities. Descriptions start from the bottom row of Table 35, going up.

Configuration G is the condition where the cases were not considered as 'innovative' cities, and neither did they have strong presence of progressive society, transformational leadership, or efficient transaction costs. Three cities in different time periods were identified as having this configuration. They include: (1) Tanjungpinang, ID and (2) Malabon, PH (since decentralization started in their respective countries until 2014), as well as (3) Marikina¹ (at the period before the election of BF in 1992).

Configuration F is the condition where the city was not considered as 'innovative', and neither did it have favorable society and leadership. However, despite not having these characteristics, the city did face largely favorable transaction costs. Only one observation is found in this configuration, namely Samarinda, ID. The configuration of characters has remained descriptive of Samarinda, from the start of decentralization until 2014.

Configuration E is the condition where the city was not considered as 'innovative', and neither did it have favorable society and transaction costs. However, it did have transformational leadership. This is exemplified only by the observation of Marikina (during BF's first term in 1992-1995), when the city council largely opposed his reforms, and the society has not fully embraced or understood the objective of such reforms.

Configuration D is the condition where the city was not considered as 'innovative' and neither did it have favorable leadership and transaction costs. However, it did have a progressive society. Three observations fall under this configuration: Dagupan (before election of Benjie Lim in 2001), Naga (before election of Robredo in 1989), and Pekalongan (before election of Basyir in 2005). Before the arrival of transformational leaders, these three cities started by already having a progressive society.

Configuration C is the condition where the city was not identified as 'innovative', and neither did it face efficient transaction costs. However, it did have (1) a progressive society and (2) transformational leadership. This configuration is exemplified by Naga (during Robredo's first term in 1989-1992, when he faced major obstacles from the city council), Pekalongan (during Basyir's first year as mayor in 2005, when he was still trying to build a coalition for his party), and Dagupan² (from

2001 onwards until 2014, the city's leadership has faced various governing challenges related to lack of healthy political rivalry and supportive city council).

b. Types of Change

Out of the seven configurations, there are three types of change (and one 'non-change') that were experienced by the cases. Four cities largely experienced no change in terms of their configuration of leadership, society, and transaction costs. Since the start of their respective decentralization, Tanjungpinang, ID and Malabon, PH has remained in Configuration G, Samarinda, ID in Configuration F, and Balikpapan, ID in Configuration A. Meanwhile, the other four cities have experienced three types of change (see Table 36).

Table 36: Truth Table with Types of Change

Innovative?	Society?	Leadership?	Transaction Costs?	Configuration	Actual Observations (cases)			
					No Change	Change Type 1	Change Type 2	Change Type 3
Y	Y	Y	Y	A	Balikpapan (until 2014)		Naga (1992-2014), Pekalongan (2006-2014)	Marikina (2007-2014)
	N	Y	Y	B				Marikina (1995-2007)
N	Y	Y	N	C		Dagupan (2001-2014)	Naga (1989-92), Pekalongan (2005)	
		N	N	D		Dagupan (until 2001)	Naga (until 1989), Pekalongan (until 2005)	
	N	Y	N	E				Marikina (1992-95)
		N	Y	F	Samarinda (until 2014)			
			N	N	G	Tj.pinang (until 2014), Malabon (until 2014)		

Change Type 1 was experienced by Dagupan, PH. The city already started by having a progressive society but not much else (Configuration D), and then it also had effective leaders (Configuration C), approximately since 2001. However, from then on, high transaction costs have loomed over the functioning of the city government, with difficulties in reconciling acute political rivalry that had wide-ranging effect on the city council and various citizens groups. Dagupan has largely remained in Configuration C until 2014.

Change Type 2 was experienced by Naga, PH, and Pekalongan, ID. Similar to Dagupan's early trajectory, these two cities already started with having a progressive society (Configuration D), and then they had effective leaders added into the mix (Configuration C). These leaders experienced some political difficulties (high transaction costs of governing) in their first periods as mayor (in Naga it lasted for most of Robredo's first term, while in Pekalongan it lasted only for several months). However, such issues were ironed out after Robredo's slate won all local political positions in the subsequent election, and after Basyir built a broad-based political coalition and won the trust of key social figures (Configuration A). From then on, effective and committed leaders were able to spring on progressive society and capitalize on low transaction costs to conduct many innovations.

Change Type 3 was experienced by Marikina, PH. The city started without favorable society, leadership, and transaction costs (Configuration G, or similar to the condition faced by Malabon, PH, and Tanjungpinang, ID). At one point, transformational leadership was a part of the city's characteristics with the election of a charismatic, committed, and particularly strong leader in 1992 (Configuration E). The leader faced some political challenges, but was able to create a condition of favorable transaction costs that allowed him to introduce many changes and made

the city government an 'innovative' one (Configuration B). Over time, the institutionalization of such reforms resulted in the development of a progressive society (Configuration A), where leadership and transaction costs remained favorable, and the city government remained innovative.

c. Assessment

Comparing innovativeness both across cases and across time has allowed us to see more nuances. Previously when comparing 'innovative' and 'typical cases', the different time periods for each case were amalgamated into one. Now, by analyzing the cases through different key periods of the city (historical analysis), we find that the conclusion achieved by only comparing 'innovative' and 'typical' cities could be further enhanced.

The conclusion from this section (comparing innovativeness across time) remains consistent with that from the previous one (comparing innovative and typical cities). In general, we could still argue that transaction costs, leadership, and society may be associated with innovativeness, and that the latter tends to be present when all three conditions were fulfilled.

However, by comparing innovativeness across time, an additional 'special case' was identified in the form of Marikina, PH. Marikina is an interesting case that shows that unfavorable history could be changed, where the society shifted over time from being unruly, rent-seeking, and unorganized to disciplined, meritocratic, and eager to associate. The city did this by having an exceptional leader who built favorable transaction costs that allowed him (and her) to introduce reforms and turn the city into an 'innovative' one, even without the presence of a distinctly progressive society (Refer to Configuration B in the previous section). Over time, the leader institutionalized those reforms, and supported civil society groups to better

organize themselves. This is in line with the 'strong state' argument (Wiarda and Boilard 1999). In the long-run, these possibly helped to change the trajectory of Marikina as a society such that it is now often exemplified as an organized, meritocratic, and progressive one.

However, the odds of relying on such leaders are small. Out of five cases where good leaders were present, three surfaced from a context of an initially progressive society (Pekalongan, Naga, and Dagupan), one had been present for multiple decades together with a favorable society such that it was difficult to identify which came first (Balikpapan), and one came from a not-so-favorable society (Marikina). This seems to highlight arguments for the importance of deep-rooted institutions in the society (Williamson 2000, Granovetter 1985). These findings, however, remain speculative as they were based on a limited number of observations. One of the ways to improve the validity of such arguments is to reduce biases, including ones which may have been caused by country-specific conditions (i.e., inherent differences among the Philippines and Indonesia).

3. Comparing Philippine and Indonesian Cases

Third, similar to the way innovative and typical cases have been compared and contrasted, possible differences between Philippine and Indonesian cases were identified in terms of leadership, society, and transaction costs. The objective of this comparison is to check whether there was any strong pattern that distinguished the Philippine and Indonesian cases which may have biased the way innovative and typical city governments were distinguished. The comparison is not meant to find meaningful differences among Philippine and Indonesian cases in explanatory ways, but more descriptive. While it is acknowledged that the Philippines have had longer experience of decentralization than Indonesia (by about 10 years), any difference

that appear between the two countries in terms of leadership, society, or transaction costs may have been related to other factors than decentralization experience.

a. Leadership and Society Factors

First, the extents of which leadership-related sub-factors were present or absent in Philippine and Indonesian cases are presented in Table 37. The difference in the presence of leadership aspects ranged from zero to one case for each sub-factor (charisma, commitment, and diversity of experience). In aggregate, Philippine cases obtained nine ‘Yes’ out of a possible 12, while Indonesian cities obtained seven. The difference of two out of 12 possible ‘Yes’ is argued to be relatively small.

Second, the extents of which society-related sub-factors were present or absent in Philippine and Indonesian cases are presented in Table 38. The difference in the presence of society aspects ranged from zero to one case for each sub-factor (meritocratic norms, organized civil society, and favorable history). In aggregate, Philippine cases obtained seven ‘Yes’ out of a possible 12, while Indonesian cities obtained six. Similar to the situation with leadership factors, the difference of one out of 12 possible ‘Yes’ for society factors is argued to be relatively small.

Table 37: Leadership in Philippine and Indonesian Cases

Leadership sub-factors	Philippine city governments				Phil. Case Count	Indonesian city governments				Indo. Case Count
	Innovative		Typical			Innovative		Typical		
	Naga	Mari-kina	Dagu-pan	Mala-bon		Peka-longan	Balik-papan	Sama-rinda	Tanjung-pinang	
Charisma	Yes	Yes	No	No	2/4	Yes	Yes	No	No	2/4
Commitment	Yes	Yes	Yes	No	3/4	Yes	Yes	No	No	2/4
Diversity of Experience	Yes	Yes	Yes	Yes	4/4	Yes	Yes	Yes	No	3/4
‘Transformational leadership’?	YES	YES	YES	NO	9/12	YES	YES	NO	NO	7/12

Table 38: Society in Philippine and Indonesian Cases

Society sub-factors	Philippine city governments				Phil. Case Count	Indonesian city governments				Indo. Case Count
	Innovative		Typical			Innovative		Typical		
	Naga	Mari-kina	Dagu-pan	Mala-bon		Peka-longan	Balik-papan	Sama-rinda	Tanjung-pinang	
Meritocratic norms	Yes	Yes	No	No	2/4	Yes	Yes	No	No	2/4
Organized civil society	Yes	Yes	Yes	No	3/4	Yes	Yes	No	No	2/4
Favorable History	Yes	No	Yes	No	2/4	Yes	Yes	No	No	2/4
'Progressive society'?	YES	YES	YES	NO	7/12	YES	YES	NO	NO	6/12

b. Transaction Cost Factors

Third, the extent to which transaction cost-related sub-factors were present or absent in Philippine and Indonesian cases are presented in Table 39. The difference in the presence of transaction cost aspects ranged from two to three 'Yes' for each sub-factor out of a possible number of 12 'Yes'. Here we start to see more substantial differences for each of the sub-factors, which will be explored below.

Table 39: Transaction Costs in Philippine and Indonesian Cases

Sub-factors related to Transaction Cost	Philippine city governments				Phil. Case Count (of 12)	Indonesian city governments				Indo. Case Count (of 12)
	Innovative		Typical			Innovative		Typical		
	Naga	Mari-kina	Dagu-pan	Mala-bon		Peka-longan	Balik-papan	Sama-rinda	Tanjung-pinang	
Low Information Cost (of 3)	3	3	3	2	11	3	3	2	0	8
Low Negotiation Cost (of 3)	3	3	0	1	7	3	2	2	2	9
Low Enforcement Cost (of 3)	3	3	1	0	7	2	3	3	2	10
Sub-factor Count	9/9	9/9	4/9	3/9	25/36	8/9	8/9	7/9	4/9	27/36
'Low Transaction Cost'?	YES	YES	NO	NO		YES	YES	YES	NO	

In terms of information cost, Philippine cases obtained 11 out of 12 possible 'Yes', while Indonesian cases only obtained eight. Upon inspection of the more specific sub-factors related to information costs, this may be related to a difference in networking activities (Table 40, item A2). It is noted that all four Philippine cases, regardless of 'innovative' or 'typical', have conducted or were involved in extensive networking activities, be in vertical, horizontal, or local networks. Meanwhile, Indonesia's 'typical' cases were more limited in their networking. Samarinda sporadically participated in national-level city associations, while Tanjungpinang had largely minimal involvement in intercity networks. While the number of cases are not enough to draw any conclusion, but the maturity of each country's city government associations may deserve to be further explored (the League of Cities of the Philippines was established as per 1991 Local Government Code, while Indonesia's City Government Association or APEKSI was established in 2000, similarly in-line with decentralization laws). Another possible area of exploration is the extent to which English as the international language of networking is spoken in each country.

Table 40: Comparing transaction cost factors between Philippine and Indonesian cases

	Sub-factors related to Transaction Costs	Philippine Case Count	Indonesian Case Count
A	Low Information Cost	11/12	8/12
	1. Access to ICT	4/4	3/4
	2. Networking activities*	4/4	2/4
	3. Travels & familiarity with other cities	3/4	3/4
B	Low Negotiation Cost	7/12	9/12
	1. Relationship with city council	3/4	3/4
	2. Relationship with citizens	2/4	2/4
	3. Healthy political rivalry*	2/4	4/4
C	Low Enforcement Cost	7/12	10/12
	1. Capable civil servants	2/4	3/4
	2. Capacity building activities	3/4	4/4
	3. Incentives & disincentives	2/4	3/4

*: Possibly a notable difference between Philippine and Indonesian cases

In terms of negotiation cost, Indonesian cases obtained nine out of 12 possible 'Yes', while Philippine cases obtained seven. Upon inspection of more specific sub-factors, this may be possibly related to a difference in presence of healthy political rivalry (Table 40, item B3). All four Indonesian cases, whether 'innovative' or 'typical', did not face conditions where the mayor faced substantial 'obstructionist' moves by their political rivals while in office. Meanwhile, both of the Philippine's 'typical' cases faced bitter rivalry that resulted in a mayor sidelining the rival's family members from strategic public positions, discontinuing the rival's signature programs once the latter is no longer in power, and battling each other in court cases and media war. Speculatively, these may be related to the longer history of direct democracy in the Philippines, as well as the extent to which strong local families, 'clans', or 'dynasties' have been present. It may also be related to the fact that Philippine LGUs do not have a 'permanent secretary' (the 'city administrator' post is coterminous with that of the mayor). An 'informal understanding' between political leaders and senior career executives was argued to contribute to higher 'perceived innovation' (Berman et al. 2013)

In terms of enforcement cost, Indonesian cases obtained 10 out of 12 possible 'Yes', while Philippine cases only obtained seven. However, upon inspection of the specific sub-factors related to enforcement cost (Table 40, items C1-3), there was only a difference of one case count among Indonesian and Philippine cases.

In the aggregated notion of transaction costs, Philippine cases obtained 25 'Yes' out of a possible 36, while Indonesian cities obtained 27. Similar to the earlier situations, the difference of two out of 36 possible 'Yes' is argued to be relatively small. Philippine cases lead in terms of information costs (11/12 'Yes', as opposed to 8/12 among Indonesian cases), but Indonesian cases lead in terms of negotiation

costs (9/12 compared to 7/12) and enforcement costs (10/12 compared to 7/12). In the end, such differences were evened out and a preliminary argument is proposed that there was no meaningful difference among Philippine and Indonesian cases in terms of transaction costs.¹⁷⁴

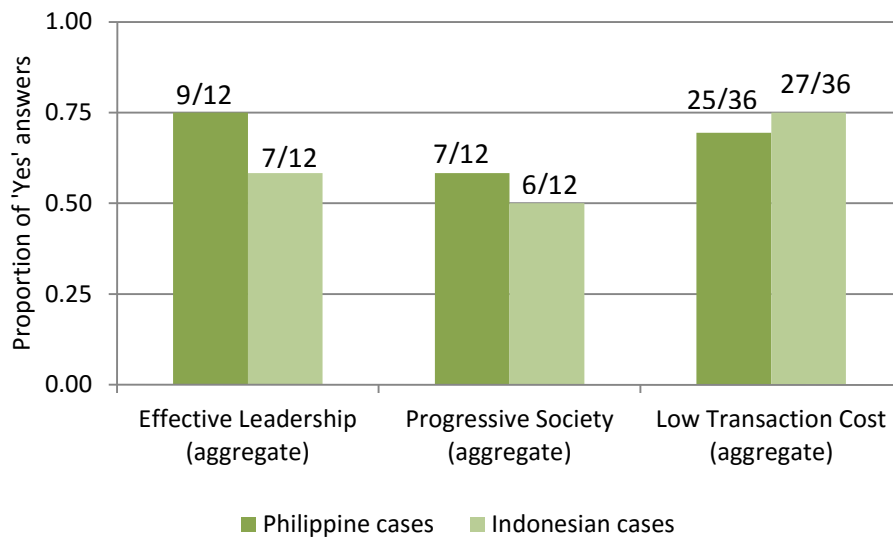
c. Assessment

There were no strong indications to suggest that Philippine and Indonesian cases were so different that they may have biased the comparison of innovative and typical city governments. In general, such findings were as expected and seem to highlight various similarities between the two countries (see Figure 19). This, however, further exposes the high level of similarity in local governance issues between the Philippine and Indonesian cities that many people (including politicians and policy makers in the two countries) seem to have not realized.

Some relatively minor differences, however, exist between cases from the two countries. The Philippine cases showed slightly stronger presence of leadership and society factors (commitment, diversity of experience, and organized civil society), while the Indonesian cases fared marginally better in terms of transaction costs. However, no substantial difference was identified between the cases of the two countries in terms of leadership and society sub-factors.

¹⁷⁴ Two sub-factors, however, perhaps deserved to be further studied: engagement in networking activities, and presence of extreme political rivalry.

Figure 19: Comparing Explanatory Factors between Philippine and Indonesian Cases



In the transaction cost sub-factors, Philippine cases tend to fare better in information costs especially by engaging in wider networking activities; even the 'typical' cases were more involved in various international, national, and local networks. However, the Indonesian cases tend to fare better in negotiation costs by facing healthier political rivalry; even in the 'typical' cases, city mayors did not face disruptive political and administrative challenges from his or her political rivals. The Indonesian cases also fared slightly better in the three aspects of enforcement costs. Again, only a limited extent of conclusion can be drawn from the small number of cases, but some tendencies have been noted.

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Chapter 7: Conclusion

Public innovations are increasingly capturing the imagination of politicians, government officials, and academics. With growing interest in cities and urbanization, more attention is being focused upon local governments and their role in offering innovative public solutions that could inspire fellow cities and municipalities. While more research has been conducted on the topic, a review of the literature showed a lack of theoretical framework that attempts to explain why certain cities have been introducing more innovation than others. The small number of research done specifically on mid-sized city governments, and the ‘big-bang’ adoption of decentralization in newly democratized Indonesia and the Philippines (which have provided unprecedented degree of autonomy to city governments therein) provided the motivation to identify more specific cases to study.

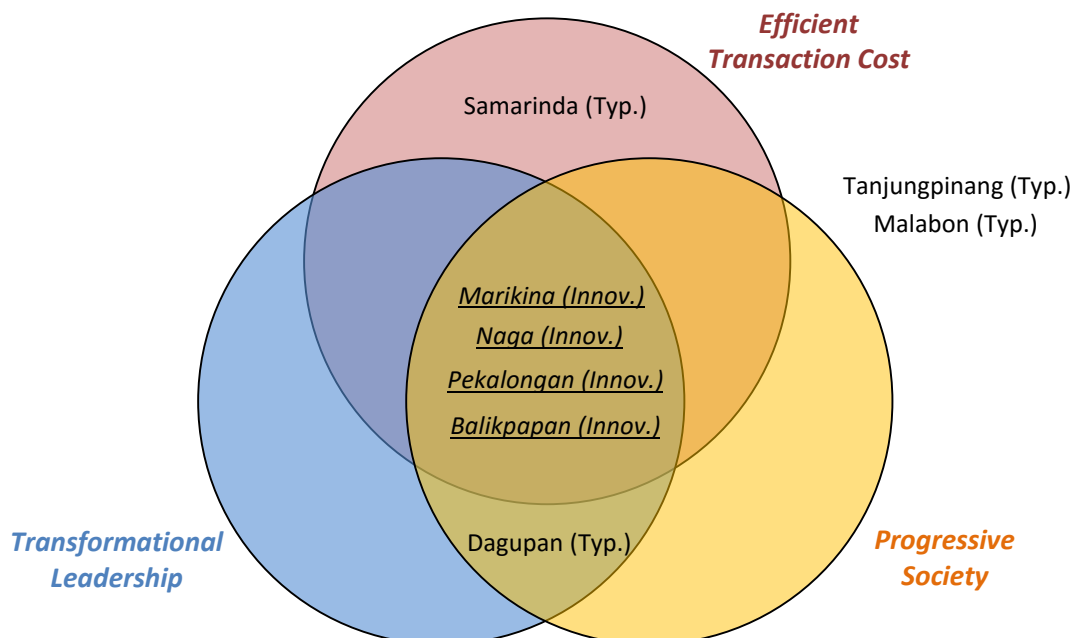
This thesis aims to understand the factors which may have contributed to some city governments being consistently more innovative than others. It attempts to fill the gap in theoretical explanations by offering a ‘Leadership-Society-Transactions’ framework that integrates conventional explanations (agents and structure) with an arguably less-conventional one drawn from theories of transaction costs. The framework is applied to eight mid-sized cities in Indonesia and the Philippines to better understand how factors related to transformational leadership, progressive society, and efficient transaction costs have been present (or absent) in both ‘innovative’ and ‘typical’ city governments over a 10-20 years period.

This final chapter of the thesis provides a summary of the research findings, offers policy recommendations, identifies intended contributions to the academic literature, reflects on the methodological shortcomings, and ends by proposing some suggestions for future research.

1. Summary of Findings

The findings of this research could be simplified as a Venn diagram in Figure 20. The figure shows that innovative city governments, in this case, Naga and Marikina in the Philippines, and Balikpapan and Pekalongan in Indonesia, showed notable presence of the three explanatory factors: transformational leadership, progressive society, and efficient transaction costs. Meanwhile, typical city governments such as Dagupan and Malabon in the Philippines, and Samarinda and Tanjungpinang in Indonesia, tend to lack one, two, or all three of such factors.¹⁷⁵

Figure 20: Cases in relation to the Leadership-Society-Transactions Framework



¹⁷⁵ This seems to be in line with the 'Anna Karenina principle' from Tolstoy's 1877 novel ('happy families are all alike; every unhappy family is unhappy in its own way').

The four typical cases showed variation in the presence (or absence) of these factors. Malabon and Tanjungpinang did not show strong notable presence of leadership, society, and transaction cost factors. Dagupan, however, showed relative presence of transformational leadership and progressive society, but generally lacked having favorable transaction costs over time. Samarinda, interestingly, tend to show the presence of efficient transaction costs, but generally struggled for the consistent presence of transformational leadership and progressive society.

The experience of Naga, Pekanbaru, and Balikpapan highlights how transformational leaders (3/3 sub-factors) emerged from a progressive society (3/3) and faced low transaction costs (9/9, 8/9, and 8/9 respectively), or were able to alter the transaction costs in their favor, such that they could implement new, innovative programs. Thus Naga, Pekanbaru, and Balikpapan were cities where leadership, society, and transaction cost factors worked together to make the city an innovative one.

Marikina highlights how transformational leaders (3/3) were able to emerge even from an initially not-so-progressive society (initially 0/3, but then 3/3). These leaders had especially strong political will and charisma, such that they could alter transaction costs which were initially against their favor (negotiation costs were initially 1/3, but then 3/3), and implement the needed transformative programs. Over time (23 years of consistent implementation), Marikina was able to change the values, norms, and habits of their population such that it has now more meritocratic and organized.

In Malabon and Tanjungpinang, a less-than-progressive society (0/3) coupled with inconsistency in the presence of transformational leaders (0/3) have prevented the city from introducing innovative programs. Even if sometimes

promising leaders with commitment and favorable experience were given the chance to lead, they were largely prevented from being effective. Malabon's and Tanjungpinang's transaction costs were relatively low, though not very obstructive (3/9 and 4/9, respectively). However, inward-looking orientation and lenient attitude towards accountability in Tanjungpinang, predatory interest groups and disruptive political rivalry in Malabon, as well as permissive attitude and low capacity of civil servants in both cities consistently presented challenges to mayors who may be keen on implementing innovative programs.

While the six cases showed that leadership and society factors tend to be present in the innovative cases and absent in the typical cases, two remaining cases (Dagupan and Samarinda) showed otherwise. Dagupan showed that leadership and society, alone or together, were not enough to explain innovation. Dagupan is a case where even relatively transformational leaders (2/3) and relatively progressive society (2/3) were not able to join forces to implement innovative programs consistently over time. A large part of the explanation may be that Dagupan's leaders faced relatively unfavorable transaction costs (4/9), especially in terms of bitter political rivalry, where opposing characters take the leadership position one after another, and resulted in the nullification of existing programs, not to mention lack of consistent support from city council and citizens groups.

Similar to Dagupan, Samarinda showed that transaction costs alone were similarly not enough to explain public innovation. Samarinda's leaders had faced relatively efficient transaction costs (7/9), which signify that the leaders have been able to generate a consistently favorable political and administrative environment for whatever program they would propose. However, the relative lack of transformational leadership (1/3) and absence of progressive norms in the society at

large (0/3) seem to prevent the city from coming up with innovations that generate meaningful public value.

The research findings pose questions on traditional claims of the primacy of leadership (agency) alone or deep-rooted societal institutions (structure) alone. A meso-structure that links leaders and their social setting is argued to be present in the form of transaction costs, and it seems to matter in providing or completing a framework to explain a city government's innovativeness. The notion of transaction costs covers an overlapping area between leaders and society, but also reveals some aspects of local governance that were not visible by looking at agents and structures alone, especially in terms of how new policies and programs were adopted and implemented.

2. Policy Recommendations

Based on the findings of how leadership, society, and transaction cost factors played out in innovative and typical city governments, the thesis provides policy recommendations to national and local government policy makers, as well as donor agencies, to facilitate city governments in further developing innovations.

Learning from Leadership and Society

Leadership

As identified in the theoretical framework, leadership is related to a host of qualities related to deep and personal characters. As such identifying policy recommendations to improve local leadership quality, especially that related to commitment and charisma, is not a straightforward task. Diversity of experience is a factual condition based on one's past, but it could be enhanced even after someone has become a leader, i.e., by exposing him or her to 'common zones' of interaction,

were political leaders meet other leaders from the bureaucracy, business sector, and community groups (Hambleton and Howard 2013).

The notion of leadership also should be extended beyond top-level political positions. Bason (2010), for example, identified four levels of leadership which are relevant for innovation: (1) the political chief executive, (2) the top-ranked career civil servant (permanent secretary and heads of city departments), (3) the mid-level manager (head of sub-departments), and (4) the institution head or team-leaders. Each of these has a role to play in enabling innovation. This falls in line with the argument for good 'executive initiative understanding' between political leaders and career executives, which tend to be associated with increased perception of innovative activities (Berman et al. 2013).

The gap in governance capacity among political leaders is notable. Political leaders typically can interact very well with citizens on the relatively short-term and political context of vote-getting. However, once elected, the leader is expected to interact with citizens in more the long-term context of local governance. How they interact with administrative leaders and staff, city council members, civil society groups, etc. are also key. The research found many newly-elected political leaders in the Indonesian and Philippine cities struggled on this front and so there is untapped demand for improving the governing capacity of political leaders (including their interaction with administrative leaders) in the context of local democracy.

Society

Factors related to deep-rooted societal institutions were found to be strongly present in the innovative cases but not so in the typical ones. While history cannot be changed, norms and the organization of citizens groups could be transformed over time. First, much could be learned from how Naga, Marikina, and

Pekalongan empowered civil society groups. These cities benefited from local and national government programs, as well as those of NGOs and religious institutions, which conduct civic education and community organizing. Naga has a 'people's council' where various civil society groups converge at the city level, and one representative from the people's council is formally involved as an additional voting member of the city council. In Pekalongan, the national community empowerment program (PNPM) is used to a great extent to train community groups to organize themselves, participate in public affairs, and ultimately become more politically empowered. Along the argument for building social capital with 'wide radius' (Fukuyama 1995), cities could also provide resources for civil society groups (which tend to have narrow interests based on religion, ethnicity, hobby, etc.) to work together, for example, on a common city-wide project.

Second, one could still learn from these cities in how to institutionalize values of meritocracy, trust, and trustworthiness through formal and informal ways. Formally, Marikina implemented a strict rule of law where unruly sidewalks were ravaged and those who violated recycling rules were fined. However, such rules equally applied to city government officers, so a sense of 'credibility' was established. After 15-18 years of consistent implementation, norms and values slowly changed and now Marikina is widely regarded as one of the country's most orderly cities.¹⁷⁶ Informally, good norms are also appreciated, as shown by an example from Naga, where citizens who return other people's lost belongings would always get personal appreciation from the mayor, and are profiled in the city's media. Furthermore, In Pekalongan the mayor gave annual awards to citizen

¹⁷⁶ Interview respondents, however, warned that Marikina is still prone to backslides, so such rule of law needs to be continued. When the researcher visited the city several times in 2014 and 2015, he found people conducting community service for violating city rules like not separating the garbage.

entrepreneurs and innovators, in line with the argument for cities to support social entrepreneurs (Korosec and Berman 2006).

Learning from Transaction Costs

Information Costs

Based on understanding of information costs, we are alerted to the importance of 'policy learning' across cities and the need to develop a case bank of good practices. For this to work better, cities need to expand ICT access to both civil servants and the population (Hale and Project 2011). Collaboration between city governments and telecommunication companies could be explored, as in the case of Balikpapan City with PT. Telkom. To ensure that the database of innovative programs are well used, a government organization could be tasked as 'knowledge facilitator' that helps local governments identify appropriate solutions from other cities, including the resources (reports, trainers, funding, etc.) to do so.

However, I should clarify that beyond ICT access, how the technology is used and the types and forms of information available is just as important. Currently award committees tend to showcase their winning programs only in a one-page description, if at all. Instead, these should be packaged in more popular language, perhaps in the form of feature articles, videos, etc. with collaboration with the media. The database on award-winning programs should be open and easily accessible to the society. Relevant and useful content should be further developed in more popular language or format that is more accessible to the society.

Second, for innovative ideas to flourish, city officials need to expand their network beyond their immediate locality and interact with officials from other cities and regions (Considine, Lewis, and Alexander 2009, Newman, Raine, and Skelcher

2001). City governments should try to secure resources to engage in inter-city networks, which may include membership dues, budget for travels, and time for public leaders to participate in network events. Despite some tendency to be misused for personal interests, traveling, if done strategically, is an effective way to keep city leaders (not only mayors) inspired and have a range of good models to pull from. However, they need to report back to the citizens on what they learned from these networking and traveling opportunities, perhaps through the media. Naga gives a good model on how leaders regularly provide a Facebook update of what they are doing when traveling, and the lessons that could be highlighted for the city.

Negotiation Costs

Based on understanding of negotiation costs, we found that not all city leaders have the ability to build good relationship with local stakeholders; trainings on negotiation, public engagement/participation, and community empowerment may be relevant. The proportion of 'veto players' in the city council may be given, but the relationship and understanding between the executive and legislative institutions could be improved. From Naga and Marikina, one could learn how frequent informal meetings between the mayor, senior career executives, and city council members were conducted on a weekly basis. This was easier to do in Philippine cities as they tend to have substantially fewer councilors than Indonesian cities.¹⁷⁷

The relationship between city government and society could be also improved by similarly facilitating more frequent meetings between the two. For example, Imdaad of Balikpapan held weekly open house 'coffee morning' sessions,

¹⁷⁷ For example, despite similar population size, Tanjungpinang in Indonesia has 30 city councilors while Naga has 10.

and rides the bike around town with citizens every Sunday. Meanwhile, Basyir of Pekalongan answers questions on the radio every week. Such relationship, however, could be further improved by incorporating citizens' voice and role in the design and implementation of public programs, similar to the 'co-creation' argument (Alves 2013). For example, the Naga city government has conducted numerous collaborative projects with NGOs and POs, as Malabon were also doing with the AIMM on the Community Mortgage Program. More advanced forms of citizen participation such as 'citizen's juries' and 'citizen's panels' also help the public better express their expectations, and the city government could get more ideas for innovative programs (Newman, Raine, and Skelcher 2001). However, to engage meaningfully in such opportunities, the society's capacity needs to be strengthened, for example through 'citizen's academies' (Morse 2012).

Enforcement Costs

Based on understanding of enforcement costs, we found the need to ensure good capable civil servants. This is a given factor, but could be achieved by ensuring clean, meritocratic recruitment in the first place (Rauch and Evans 2000). Regardless of civil servants' given capability, capacity building needs to be conducted on an ongoing basis. Naga and Pekalongan have shown that trainings and awareness-raising on productivity and service orientation could be effective in improving both the skills and mindset of the bureaucracy, especially when coupled with more comprehensive programs such as a 'citizen's charter' and the Productivity Improvement Program. Although conducting trainings and sending highly performing staff to public policy schools is beneficial, many government staff appreciated the hands-on trainings and modeling of 'good behavior' conducted directly by the mayor, as in the case of Marikina and Balikpapan.

Finally, the city government could apply an appropriate incentive system for both civil servants and public leaders to conduct innovations that provide public value. As argued by Bason (2010), innovativeness should also be encouraged ‘consciously’ and ‘systematically’. This could be done by incorporating ‘innovation’ as a value in the city’s vision and mission. The Seoul metropolitan government in South Korea provides an example of wholesale adoption of ‘creativity management’ which resulted in more than 60,000 new ideas proposed by employees and managers within a period of two years, where ultimately 13% of such ideas were implemented (Berman and Kim 2010). The incentive argument for ensuring good performance is arguably more ‘transactional’, but people in general respond to incentives. Such incentives could be monetary (as in the case of Balikpapan and Marikina’s performance bonuses), reputational (as in the case of Tanjungpinang’s ‘best’ and ‘worst’ sub-districts, and Marikina’s quarterly rating of employees), or career-based (as in Balikpapan’s educational and promotion opportunities).

Role of National Government

An aspect of ‘negotiation cost’ *not* covered in this research was the possible compromises that a city government may need to conduct with higher level governments, namely the provincial and national government. This aspect was not covered due to the argument that Indonesia’s ‘autonomous’ cities and the Philippines’ ‘highly urbanized’ and ‘independent component’ cities¹⁷⁸ have a high level of autonomy that most local innovations could be decided internally and conducted using the city’s own budget. However, in effect, the ways in which national and local governments view innovation could present a challenge. Until the

¹⁷⁸ All eight cases in this thesis fall into these categories.

recent (2014) update of Indonesia's local government law¹⁷⁹, the country's regulatory framework did not recognize the concept of local public innovation, and thus 'innovation' and 'innovativeness' was often seen in a suspicious light (as something that did not have legal justification).¹⁸⁰

While the law should indeed be welcomed, more recommendations on how the central government could facilitate regional and local innovations would be beneficial. A 'rational choice' approach is to incentivize innovative local leaders with political visibility and reputational capital (Potts and Kastle 2010). National government leaders could do their part by placing a premium on local innovations, and reward innovative mayors with more political prominence and/or promotion to high-profile national positions. For example, in the Philippines, the GP Awards is already a prestigious event hosted directly by the President, and Robredo (whom on behalf of Naga City had received multiple GP awards), was eventually appointed as Secretary of the DILG. For the city in general (not just for leaders), innovations could be incentivized with more tangible rewards, such as letting the city government keep cost savings enabled by the innovation as 'strategic funds' that can be used to achieve the city's goals, or to enable more innovations in the future (Albury 2011). How a city government uses such savings, however, should be transparent and regulated.

The central government could also 'buy' or 'procure' successful local innovations for scaling up as a national program (Rolfstam 2013, Lember, Kalvet, and Kattel 2011). However, more care should be applied to prevent premature or

¹⁷⁹ Indonesia's Law No. 23 of 2014 on Regional Governance (*Pemerintahan Daerah*) dedicates Chapter XXI (Articles 386-390) to support and regulate local innovations.

¹⁸⁰ Law No. 23 of 2014 further states that an objective of the articles on local innovation was to 'develop objective criteria' such that 'innovations will be developed without fear of breaching the law'.

inappropriate replication. Instead, the central government could allocate more attention to support 'bottom-up innovation' (Lowndes 1996) by facilitating local governments that have shown initiative to replicate an 'innovation' from elsewhere based on their own interest. The DELGOSEA project (Partnership for Democratic Local Governance in Southeast Asia) provides an example for an organization that facilitates city governments to learn from 'best practices' conducted by other city governments.

With growing interest in public innovations, it is time that Indonesia and the Philippines start to have regularly published data on the subject down to the local level. The biases of innovation-specific surveys are well documented. However without the availability of such data, we are left to proxy innovation from similarly biased sources, such as award winners. Large scale surveys of over 500 local governments in Indonesia and over 1,000 in the Philippines are expensive and bureaucratic, and needs to be adopted by the national government. To reduce possible reporting biases, the national government may *not* need to do a dedicated survey on the topic of 'innovation', but require local government to conduct regular reporting of their key policies, programs, and projects, wherein one of the fields/questions to be answered is: 'Is it a new policy/program/project that did not exist last year?' This question could help identify possible innovations and innovativeness across local governments, and set the stage for a targeted follow-up survey that include more specific questions for the innovative programs.

3. Academic Contributions

This thesis is expected to contribute to the literature on a number of academic fields, namely public management and public policy, new institutional economics, urban studies, and Southeast Asian studies.

Public Management and Public Policy

First, the thesis attempts to expand the field of public management by introducing the 'Leadership-Society-Transactions' (LST) framework with the consideration that there are still a limited number of frameworks that try to explain public innovativeness. This expands public management's depository of 'tools' with which to analyze this topic of growing interest. Currently the literature on public innovation tends to be dominated by descriptive attempts to clarify and distinguish the topic (for example, see Osborne and Brown 2013, Stewart-Weeks and Kestelle 2015, De Vries, Bekkers, and Tummers 2015). With the exception of a few who has provided a comprehensive framework linking innovation with awareness, capacity, courage, and co-creation (Bason 2010) or provided a strong argument for the role of power, networks, and norms in enabling/hindering innovation (Considine, Lewis, and Alexander 2009), the phenomenon still tends to be explained through 'lists'.

The LST framework offered here is unique not only because it incorporates the predominant arguments offered to explain 'innovation', 'progress', and 'change' (namely: leadership and society), but also because it draws insight from the theories of institutional analysis, especially those of transaction costs. Many of the factors that have been used to explain innovativeness could be seen as 'transaction costs'. For example, 'awareness', 'co-creation', and 'capacity' (Bason 2010), could be identified as part of 'information cost', 'negotiation cost', and 'enforcement cost', respectively. The insight from institutional approaches is relevant in light of arguments about the limited extent of institutional and political analysis in public management and policy studies literature.

This thesis has also explored some topics typically analyzed in the public policy literature. Among these is the notion of 'policy transfer' (Evans 2004, 2009)

and 'policy learning' (Rose 1991, Bennett and Howlett 1992), which are closely related to the notion of 'learned innovation'. Within the LST framework, these are primarily explored through the 'information cost' sub-factors. Parts of the case reports pertaining to information cost could be viewed as empirical observations of policy learning. Other themes related to the public policy literature explored in this thesis, though to a lesser extent, are 'policy networks', 'policy implementation', 'policy entrepreneurs', and 'policy beliefs'.

New Institutional Economics

This thesis also extends the application of transaction cost analysis into the topic of public management, and more specifically public innovation. Transaction cost analysis is often used in the private sector context to analyze various 'mechanisms of governance' to produce a good or service (Williamson 1996), from in-house production (direct provision) to outsourcing (privatization). The transaction cost analysis has also been used to analyze how public services could be delivered with higher efficacy (for example, Brown and Potoski 2003, Huet and Saussier 2003, Kwon, Lee, and Feiock 2010, Obermann 2007). In relation to innovation, much has been explored on the relationship between an organization's mechanisms of governance (i.e., size, structure, and procedures) and its likelihood to adopt innovations (Damanpour 1987, 1992, Wolter and Veloso 2008). However, the TC framework has been rarely applied on the topic of public innovation.

TC theories are mostly developed based on the private sector context, where it is assumed that economic activities will take place in any case, because economic actors need to generate profit. However, the way TCs work in the public sector may be slightly different from the way they work in the private sector. Firms need to generate profit, so they would choose different organizational forms to

minimize TCs. In the public sector context, however, where innovation is not a requirement, high TCs of a new program of policy may deter public organizations from introducing said innovation altogether.

By applying the lens of transaction costs on public innovation, this thesis found some evidence on the theoretical proposition that connects innovativeness with presence of low transaction costs. All the four innovative cities have faced favorable transaction costs of governing, while three of the four typical cities have not. One of the typical cities which did face efficient transaction costs (Samarinda of Indonesia), however, argued that transaction costs may not be a sufficient explanation, and that other factors (i.e., leadership and society) may similarly play an important role in explaining public innovativeness. The case reports describe the ways in which transaction costs were present (or absent) in eight mid-sized cities of Indonesia and the Philippines. Academically, these contribute to the expansion of empirical studies of transaction costs in less-explored topics (public innovation, mid-sized cities, Indonesia, and the Philippines).

Urban Studies

Furthermore, the research expands the field of urban studies by (1) exploring the topic of urban governance in less-explored cities, and (2) expanding the literature on innovations in the city from a largely private-sector focus to include the public sector. Plenty of analyses have been conducted on cities of the developed world, as well as capital and large cities of the developing world. However, with the exception of some, there is a dearth of knowledge about what is specifically happening in the developing world's secondary and mid-sized cities. Although a mid-sized city does not accommodate many residents compared to large or metropolitan ones, but a great number of cities fall under the medium-size category. Therefore

better understanding of how these cities are governed potentially sheds light on how a large portion of the population is governed.

Also, this thesis explores aspects related to leadership, society, and how the two are related through politics and policy in the context of public innovations. There is already an established literature on why some cities better support firms in conducting innovative activities. Many of these also utilized the transaction cost perspective to argue that cities which offer lesser transaction costs provide more positive externalities and opportunities for firms to innovate (Piore and Sabel 1984, Storper 1993, Saxenian 1996). Unlike the existing literature, however, this thesis has not offered a specifically 'urban' or 'regional' viewpoint (i.e., by looking at distance and density). Instead, it has explored cities and urban settings in particular, and offered empirical cases of public innovations in the city.

The literature on urban politics and urban regimes, such as those developed by Stone (1993), Molotch (1976), and DiGaetano and Klemanski (1993), have informed the development of the framework used in this thesis. However, considering the breadth of the transaction cost framework, the urban politics literature has been incorporated in a limited manner within the "negotiation cost" component (more especially under "relationship with society"). My research have gauged the extent of presence of urban regimes in the cities, and found that pro-development "growth machines" did not feature prominently. From my cases I found that government officials were typically not interested in linking with big private businesses in urban development projects as the former was more interested in seeking gains from the public purse. The fact that I am focusing on mid-sized cities in Indonesia and the Philippines may have contributed to such findings. Albeit still at an early stage, these would make an interesting point to highlight as

empirical response (from mid-sized cities of developing Asia) to the more established theories (typically drawn from larger cities in Western cases).

Indonesia, the Philippines, and Southeast Asian Studies

Finally, the research expands knowledge in the fields of Indonesian studies, Philippine studies, and to some extent Southeast Asian studies. With similar argument to the above, most of the current understanding on Indonesia and the Philippines (as well as Southeast Asia) has been based on the context of major cities and some rural areas therein, but not the mid-sized and smaller cities. Also, there is little research on public management issues that compares and contrasts sub-national entities across multiple Southeast Asian countries. This research thus sheds more light on a relatively less explored region of archipelagic Southeast Asia that possibly offers interesting lessons, particularly in the field of public management and urban governance in the context of recent democratization and decentralization.

Through this cross-country comparison, with careful selection of two countries that are similar in many ways (especially related to decentralization, but also politics and culture), I highlighted a high level of similarity between the Philippines and Indonesia that many people – including in both countries - did not realize. Many could be achieved by highlighting this phenomenon, including more opportunity for policy learning between Indonesian and Philippine cities.

4. Limitations

In general, there was no major hurdle in obtaining primary data in the form of interviews, except perhaps in the city of Malabon, where some intended respondents were reluctant to provide their insights. Secondary data and statistics was also relatively accessible, but only once the researcher was already on site. Thus

for small-n approach, where fieldwork was part of the agenda, data collection did not pose a major challenge.

The methodology chapter has identified several validity issues that limit the extent to which research findings could be interpreted with assurance. First, the notion of 'innovativeness' as identified by awards may be biased in terms of (1) construct contamination, where 'innovation' was mixed with other notions such as 'positive impact' and 'community participation', and (2) self-selection, where those who applied for awards tend to be those who may already be innovative or have the capacity to write compelling applications. To deal with this challenge, 'innovativeness' was not used in continuous or ordinal notions, but binary ('innovative' and 'typical').

Second, interview respondents may be biased in their answers due to 'design contamination'. For example, knowing the topic of the research, respondents may have exaggerated the city's innovations, or deliberately offered their favorite explanations as to why innovations were adopted. To deal with this, a variety of data sources over extended periods of time were used to triangulate the information given.

Third, there were some 'contaminations' and possible endogeneity among the explanatory factors. The notion of transaction costs as explored in this thesis (the interactions between the leader and the people around her) straddles some 'gray area' with leadership and society (which were envisioned to be more intrinsic, deep-rooted, and given). A number of sub-factors under transaction costs, such as 'relationship between city leaders and society groups' may have been shaped by characteristics of the leader (i.e., commitment) and the society (i.e., norms of trust and trustworthiness). This thesis nevertheless proposes transaction costs as

explanation alongside leadership and society with the argument that it remains a valuable perspective to understand public innovation.

Fourth, there may be some endogeneity issues between the outcome phenomenon (public innovativeness) and transaction costs as explanatory factor. The thesis argued that favorable transaction costs explain public innovations. But the argument could be flipped on its head: that winning awards for innovation may lead the mayor to gain support and trust from the city council and people, thus leading to more favorable transactions. Use of historical analysis seems to suggest that innovativeness tend to manifest *after* the presence of favorable transaction costs, but it does not rule out the possibility of positive feedback loops, where transaction costs may become more favorable as the city won more awards.

Fifth, research along this topic would have benefited from the presence of quantitative data at the city level that covers not just standard statistical topics (economics, social welfare, infrastructure, etc.), but also those related to local politics, local social capital, and local public management. However, lack of formal secondary data contributed to the difficulties of conducting large-n studies with cities as unit of analysis. For Indonesia, standard statistical data was available for the city level, but may not be readily available at the national statistics office or website (and thus many cities may need to be contacted individually). In the Philippines, election data down to the local level was available online from the Commission on Elections website back to 2007. However, for standard statistical data, there was no common format and types of information available across cities. With such limitations, large-n analyses for local governments remain difficult to conduct.

Ultimately, there is much potential to explore the open-ended 'how' and 'why' questions of each case (processes, sequence, reasons) which are under-

explored. The data to develop each case into a more in-depth case study is indeed available, but I am bound to word limits of this thesis. The comparative case-study method which I adopt has driven me to focus on the common factors to be compared and contrasted among all cases, instead of explaining the process of how the explanatory factors helped lead to innovativeness. There are a variety of contexts, reasons, motivations, and processes under which the cities became 'innovative'. For example, Marikina and Naga started their transformation with very small public budget (a legacy of the inefficient ways the city was previously run). Balikpapan, on the other hand, has for a long time had a large public budget due to the presence of oil & gas revenue. As for political coalitions, a variety of situations also emerged. Pekalongan (innovative) was able to build coalition mainly through the charisma and commitment of the mayor, but Samarinda (typical) was able to build coalition through a common interest among the mayor and the cities' other politicians. Indeed, more in-depth explanations on each case would do justice to the lessons that could be learned on how different city governments came to be (or not to be) innovative.

5. Future Research Opportunities

A number of future research opportunities are present to improve this thesis and further develop theories and empirical observations related to public innovation and transaction costs. The thesis has explored an array of overlapping theories, themes, and contexts. Each of these could be analyzed and developed on its own account (instead of combined through the LST framework).

First, there is opportunity to learn further from each of the individual cases. The data and analysis for each city (especially the innovative cases), as well as some notable local innovations (or innovative programs), could be redeveloped and

packaged as 'cases' of local public management transformation and innovation. Such case studies would be beneficial as part of a 'training curriculum' for local leaders, as has been written by the researcher for the Lee Kuan Yew School of Public Policy, NUS, and the Center for Public Policy Transformation, Jakarta. Some cases such as Naga offers a particularly interesting lesson in how certain characteristics of leadership, society, and transaction costs lead to 'innovativeness'. In Naga, civil society activism, which has been built over many years, contributes to the plethora of public forums and civic engagement activities. And when such activism finds the right combination in the form of a transformational leader, they strengthen the governance processes of the city, trigger various interactions, and come up with innovative ideas well implemented. Such narratives (which may be unique from each city) deserve to be explored more deeply. More detailed comparison between the selected pairs of 'innovative' and 'typical' cases may also shed more light to uncover the 'how' and 'why' questions.

Second, further analysis could be done by expanding beyond the cases. More focused analysis could be done on the cities of one country (Philippines only or Indonesia only), where more cities would be added to be compared with the existing four already analyzed here. This would keep the analysis focused on the social and political context of each country and be of interest, perhaps, for each national government to develop specific policies. Also, descriptive research could be done on the award winners and applicants' data, identifying types and themes of innovations that have been most applied and awarded in Indonesia and the Philippines. This would provide a more unique picture of the characteristics of public innovation from a developing country perspective to complement the picture already available from a U.S. context (Borins 2014), for example.

Third, some themes that have been explored in this research deserve to be explored on its own account. More specific analysis could be done on each of the explanatory factors (leadership only, society only, or transaction cost only), tailored to more specific audiences. For example, the leadership analysis may be relevant for management journals, while the society and transaction cost themes could be relevant for audiences from the fields of institutional, political, and social analyses.

In terms of leadership, for example, while past trends have shown seemingly innate personal characters of leaders to be a dominant explanation for innovation and progress, the current trend seems to indicate increasing attention on 'collective leadership' that is embedded within networks (Contractor et al. 2012, Friedrich et al. 2009). In terms of societal aspects, the theme of social capital, norms, trust and trustworthiness has been gaining ground and examined through large-scale surveys by national institutions, such as the annual UK Citizenship Survey of 2000-2011 (Department of Communities and Local Government and Ipsos MORI 2011), Australia's 'Mapping Social Cohesion' surveys (Markus 2015), and Singapore's surveys on inter-racial and inter-religious relations (Chin and Vasu 2012, 2008). Developing countries, however, have yet to explore such issues in a more systematic manner.

In terms of transaction costs, more could be further studied. For business transactions, The World Bank's sub-national 'Doing Business' survey for Indonesia only covered 20 cities in 2012 and 14 cities in 2010 (World Bank 2012, 2010). A wider research on regional economic governance covered 243 cities/regencies in 2007 and 245 in 2011 (KPPOD and The Asia Foundation 2011, 2007). However, no updates have been conducted, and the data from such reports have rarely been examined through an academic lens.

For information costs in particular, much interest is placed on the local role of ICT and media, as well as the notion of 'smart cities', in contributing to possible innovations in both the private and public sector domains (Campbell 2012, Paskaleva 2011, Schuurman et al. 2012). Multinational companies are similarly developing relevant programs to support these, such as Microsoft's 'CityNext', IBM's 'Smarter Cities', and Cisco's 'Smart + Connected Communities'.

For negotiation and enforcement costs more specifically, the notion of 'local governance' has gained much interest in the past 20 years, with international organizations such as the World Bank and UNDP supporting various related programs. However, the increasing interest in cities and urban issues has also focused more attention to 'urban governance', which specifically explores the ways in which urban development is planned and managed. Some examples include MacArthur Foundation's support for LSE Cities' 'New Urban Governance' project, and Temasek Foundation's support for the Centre for Liveable Cities 'Leaders in Urban Governance Programme'. An area which was understudied in this thesis, and would have benefited from further research, is the extent to which a local government's bureaucratic capability (including the quality of regulations, procedures, and 'rule of law') provides either positive or negative externalities that influence its performance and innovativeness.

Finally, the proposed LST framework to understand public innovation is admittedly still in an early stage of development. In order to better understand how consistently it provides the explanatory arguments, it needs to be applied in other settings. As more quantitative data becomes available, the theory should be tested in large-n settings. Furthermore, considering that the framework is currently applied only to mid-sized cities of Indonesia and the Philippines, it would be beneficial to see

how the theory would hold when expanded to large and small cities, cities in democratic and non-democratic countries, and cities in developed and developing countries.

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Appendices

1. Appendix 1: Sample of Interview Request, Participant

Information Sheet, Consent Form

A. INTERVIEW REQUEST SAMPLE

To:

Mayor [full name]

City of [city name], Province of [province name]

[Country]

Subject: Requesting Interview for academic research

Dear Mayor [full name],

I hope this email finds you well.

My name is Mr. Mulya Amri, and I am a Ph.D candidate at the Lee Kuan Yew School of Public Policy, National University of Singapore. As part of my requirements to graduate with a Ph.D degree, I am writing a thesis based on research about "Innovative City Governments".

For the above purpose, I would like to request a semi-structured interview with your goodself, at the time and place of your choosing, between [date] to [date] of [month, year], when I will be present in the City of [city name]. The interview will take place between 30 to 60 minutes.

This research explores innovative programs conducted by governments of eight secondary or mid-size cities in the Philippines and Indonesia. It aims to understand the factors that have allowed some city governments to be innovative. Interviews will be conducted with the city mayor, other elected, appointed, and career public officials at the city level, local non-government organizations and the media. The research hopes to contribute to the knowledge on practices and policies of urban governance in the growing cities of Southeast Asia, especially in the context of decentralization.

Appended to this email are more information about the research:

1. Participant Information Sheet (basic information about the research, your participation, and your rights as participant)
2. Consent form (for you to sign as your acknowledgement to participate)
3. List of interview questions

Please don't hesitate to contact me should you need any clarification.

Thank you very much.

With best regards,

Mr. Mulya AMRI

PhD Candidate

Lee Kuan Yew School of Public Policy, National University of Singapore

Email: mulya.amri@nus.edu.sg

B. PARTICIPANT INFORMATION SHEET

- 1. Project title**
Innovative City Governments
- 2. Principal Investigator and co-investigator(s), if any, with the contact number and organization:**
Principle Investigator: Mr. Mulya AMRI (mulya.amri@nus.edu.sg)
Ph.D candidate at the Lee Kuan Yew School of Public Policy, NUS
Email: mulya.amri@nus.edu.sg
Co-Investigator: Dr. Eduardo ARARAL, Jr. (sppaej@nus.edu.sg)
Assistant Professor at the Lee Kuan Yew School of Public Policy, NUS
- 3. What is the purpose of this research?**
This research explores public innovations conducted by governments of secondary or mid-size cities in the Philippines and Indonesia. It aims to understand the factors behind the innovativeness of some city governments.
This research a partial requirement for the Principal Investigator to obtain a Ph.D degree from the Lee Kuan Yew School of Public Policy, NUS. The co-investigator is his thesis supervisor.
- 4. Who can participate in the research? What is the expected duration of my participation? What is the duration of this research?**
I plan to conduct interviews with stakeholders from government, private, non-profit sectors, as well as from academia who are of at least 21 years old, in Indonesia and the Philippines. The interview will be conducted between October 2014 (upon IRB approval) to March 2015 and will take about 30-60 minutes to complete.
- 5. What is the approximate number of participants involved?**
The number of targeted participants is 80 people.
- 6. What will be done if I take part in this research?**
If you agree to take part in this research, you will be explained in more detail about the research, you will be asked to sign a Consent Form, you will be interviewed (either face-to-face, via phone, web conferencing, email, and other means), and you will be sent a draft transcript of your interview for your inspection and approval.
Audio recording and hand-written note-taking will be carried out during the interview only with your permission. If you feel uncomfortable with having the interview recorded, written notes will be taken instead (you can choose this option in the Consent Form).
You may be re-contacted for any clarifications after the interview. Should the need for clarification arises, your additional consent will be taken.
- 7. How will my privacy and the confidentiality of my research records be protected?**

In publications or presentations related to this research, your identifiable personal information (name, position, institution) will only be disclosed with your explicit consent through an option that you can choose in the Consent Form.

In the event that consent is not given, only the generic type of institution (for example, private, public, NGO, etc.) and position (for example, staff, manager, etc.) will be disclosed; your actual name, position, and institution will remain confidential and will not be used in any publication or presentation.

In the storage of research records (notes, recordings, etc.), any identifying information (such as name, e-mail address or contact number) will be coded (i.e. only identified with a code number).

All data collected will be kept in accordance to the University's Research Data Management Policy. Research data used in publication will be kept for a minimum of 10 years before being discarded.

8. What are the possible discomforts and risks for participants?

There is no foreseeable risk or discomfort. You are free to not answer any question, if you wish. You may also withdraw from the interview at any time without having to give any reason, and all the data collected from you up to that point will be discarded. You will be sent a draft transcript of the interview notes for your inspection and approval. The researcher may not use the interview content for research and publication purpose without my prior approval of the transcript.

9. Will there be reimbursement for participation?

There will not be any reimbursement for participating in this research.

10. What are the possible benefits to me and to others?

There is no direct benefit to you by participating in this research. The knowledge gained may benefit future generations of public administrators, more specifically in the Philippines and Indonesia.

11. Can I refuse to participate in this research?

Yes, you can. Your decision to participate in this research study is voluntary, and there is no monetary or in-kind compensation for participants. There is no foreseeable risk or discomfort. You are free to not answer any question, if you wish. You may also withdraw from the interview at any time without having to give any reason, and all the data collected from you up to that point will be discarded.

12. Whom should I call if I have any questions or problems?

Should you have any questions about the research study, please contact the Principal Investigator, Mr. Mulya AMRI, at mulya.amri@nus.edu.sg or by calling or messaging him directly at his mobile phone.

For an independent opinion regarding the research and the rights of research participants, you may contact a staff member of the National University of Singapore Institutional Review Board (Attn: Mr Chan Tuck Wai, at telephone (+65) 6516 1234 or email at irb@nus.edu.sg).

C. CONSENT FORM

Project title: Innovative City Governments

Principal Investigator with the contact number and organization:

Mr. Mulya AMRI

Lee Kuan Yew School of Public Policy, NUS

Email: mulya.amri@nus.edu.sg

I hereby acknowledge that:

1. My signature is my acknowledgement that I have agreed to take part in the above research.
2. I have received a copy of Participant Information Sheet about this research project and I have understood its contents.
3. My participation in this research is voluntary and involves responding to semi-structured interview questions that will be asked either through face-to-face interaction or phone interview. The interview will take 30-60 minutes of my time.
4. I understand that the interview will be recorded either through digital media, hand-written notes, or both. I may decline to have the interview recorded through digital media and ask the interviewer to record only on hand-written notes, and will do so in point 9 below.
5. I may ask the interviewer to keep some parts of my response as “off the record” (confidential). In such case, I will identify the parts which are confidential, and the interviewer will pause or stop the recording process, not write anything about them on the notes, and not tell anyone else about them. I may decline to answer certain questions without having to provide any reason.
6. I can withdraw from the research at any point of time by informing the Principal Investigator and any information and data that I have conveyed (or parts of it) will be discarded.
7. I understand that the interviewer will send me a draft transcript of the interview notes for my inspection and approval. The researcher may not use the interview content for research and publication purpose if I decide so.
8. I will not have any financial benefits that result from this research.
9. I agree / do not agree* to audio-recording of my participation in the research.
10. I agree / do not agree* to be re-contacted for future related studies. I understand that future studies will be subject to an Institutional Review Board’s approval.
11. I agree/do not agree* for the following personal identifiers to be disclosed in any publication or presentation relating to this research, if any.

Surname First name Organisation Name Position/Designation

Disagree (I wish to remain anonymous and only agree to be known as _____).

**please delete as appropriate*

Name and Signature (Participant) Date

Name and Signature (Consent Taker) Date

2. Appendix 2: Interview Questions

Project title:

Innovative City Governments: A Transaction Cost Approach to Explain Public Sector Innovation in Secondary Cities of Indonesia and the Philippines

Semi-Structured Interview

List of Questions for City Mayor

Questions relating to Information Cost

1. As Mayor, how often did you travel to other cities in your country?
 - What about other cities abroad?
 - Did you get any inspiration from these visits,
 - and if so, from which cities,
 - and in what ways?
2. How extensively do you use the Internet to learn about innovative programs in other cities?
 - Did you get any inspiration by doing this,
 - and if so, from which cities,
 - and in what ways?
3. Is your city involved in networks or associations with other cities (nationally and internationally)?
 - How many networks or associations is your city involved in?
 - Did you get any inspiration by participating in these networks or associations,
 - and if so, from which cities,
 - and in what ways?
4. Were there any other ways through which you gained inspiration or motivation to start an innovative project or program that has never been applied before in your city?

Questions relating to Negotiation Cost

5. Who (and from which organizations) did you have to convince in order to conduct an innovative project or program that has never been applied in your city?
 - How did you rally support for innovative projects or programs from the city council?
 - How many people (or what proportion of city council members) were from the same political party as yourself?
 - Did this matter in getting the support to conduct the project or program?
6. How did you rally support for innovative projects or programs from the local business people?
 - Did this matter in getting the project or program rolling?
 - If so, in what ways do business interests matter?
7. How did you rally support for innovative projects or programs from the local civil society groups?
 - Did this matter in getting the innovative project or program rolling?
 - If so, in what ways do civil society groups matter?
8. How did you rally support for innovative projects or programs from the provincial and national-level actors?
 - Did this matter in getting the innovative project or program rolling?
 - If so, in what ways do provincial and national-level actors matter?
9. Were there other actors that had to be convinced or their support had to be secured? Who were they? How did you rally their support?

Questions relating to Monitoring and Enforcement Cost

10. Once they were approved, how did you ensure that the innovative projects or programs were implemented well?
11. How did you monitor the implementation?
12. How did you make sure that your staff implemented the projects or programs well?
13. Did capacity of your staff contribute to the success or failure of the projects or programs?
14. How did you deal with issues related to staff capacity?

15. Did incentives and disincentives for city government staff contribute to the success or failure of the projects or programs?
16. How did you deal with issues related to staff compensation, or incentives and disincentives?

3. Appendix 3: Interview Respondents

NATIONAL RESPONDENTS

Indonesia National Government and Civil Society

No	Name	Organization	Rationale for interview
1	Syarif Puradimadja	Ministry of Home Affairs	Jury of IMP Award
2	Dadang Sumantri Mochtar	Ministry of Home Affairs, Directorate General of Regional Development, Director of Urban Affairs	Convener of IMP Award
3	Djatmiko	Ministry of Home Affairs, Directorate General of Regional Development	Convener of IMP Award
4	Rudiarto Sumarwono	<ul style="list-style-type: none"> Partnership for Governance Reform University of Indonesia Ministry of State Apparatus & Bureaucracy Reform 	Minister's advisor on public innovation
5	Imelda Maidir	GIZ & Ministry of State Apparatus– One Agency, One Innovation	Convener of SINOVIK competition
6	Muhammad Sundoro	Head of Performance Evaluation Subdirectorate, Directorate General of Human Settlements, Ministry of Public Works	Convener of PKPD Cipta Karya (regional government performance evaluation in the field of human settlements)

Philippine National Government and Civil Society

No	Name	Organization	Rationale for interview
1	Dr. Eddie Dorotan	Galing Pook Foundation	Convener of Galing Pook Award
2	Adrian Adove	Galing Pook Foundation	Convener of Galing Pook Award
3	Prof. Alex B. Brillantes	<ul style="list-style-type: none"> Center for Local and Regional Governance, UP Diliman Commission on Higher Education 	Expert on public administration
4	Prof. Federico Macaranas	Asia Institute of Management, AIM Policy Center	Expert on local competitiveness; Convener of Philippine Cities Competitiveness Ranking
5	Sherwin Gatchalian	<ul style="list-style-type: none"> Representative of 1st district of Valenzuela City, House of Representatives Former mayor of Valenzuela 	Experience as Galing Pook awardee

LOCAL RESPONDENTS - INDONESIA

City of PEKALONGAN, Indonesia

No	Name	Organization	Type of Organization
1	Fathurrahman	Batik production company	Business Interest
2	Rofiqur Rusdi	Restaurant owner	Business Interest
3	Balqis Diab	City Council (DPRD)	City Council
4	Slamet Budiarto	Agency for Resarch, Technology and Innovation (RISTEKIN)	City Government
5	Agus Jati Waluyo	Agency for Community and Women's Empowerment, Child Protection, and Family Planning (BPMP2AKB)	City Government
6	Bambang Suharyono	Department of Industry (DISPERINDAGKOP)	City Government
7	Dr. Sri Budi Santoso	Department of Communication and Informatics (KOMINFO)	City Government
8	Cayekti Widigdo, Anita Kusumorini, Betty Dahfiani	Agency for Development & Planning (BAPPEDA)	City Government
9	Mohamad Basyir Ahmad	City Mayor	City Leaders
10	Dwi Arie Putranto	City Administrator (SEKDA)	City Leaders
11	Muh. Hasan Bisyr, Kartono Muhamad, Andi Eswoyo	Muhammadiyah	Civil Society
12	Ahmad Rofiq, Muhtarom, Ramdan	Nahdhatul Ulama (NU)	Civil Society
13	Setiawan Hariyanto	PATTIRO (Center for Regional Research and Information)	Civil Society
14	Dr. Suryani	Rector of University of Pekalongan	Higher Education
15	Dicky, Satri	STMIK Widya Pratama	Higher Education
16	Yohani	STIE Muhammadiyah	Higher Education

City of BALIKPAPAN, Indonesia

No	Name	Organization	Type of Organization
1	Slamet Brotosiswoyo	Indonesian Employer's Association (APINDO)	Business Interest
2	Herry Johanes	Alamindo Sejahtera Persada	Business Interest
3	Wahyu Hartono	Past city councilor	City Council
4	Arbain Side	Department of Traditional Markets (previously head of Margasari Village)	City Government
5	Muhaimin	Department of City Planning	City Government
6	Mulyanto	Village of Margasari, Staff	City Government
7	Imdaad Hamid	Past mayor	City Leaders
8	Rizal Effendi	Mayor	City Leaders
9	Jufriansyah	STABIL, Head	Civil Society
10	Hotman Simanjuntak	Universitas Balikpapan	Civil Society

City of SAMARINDA, Indonesia

No	Name	Organization	Type of Organization
1	Novel Caniago	Indonesian Employer's Association (APINDO)	Business Interest
2	Majedi Effendi	ASMINDO (Furniture industry association)	Business Interest
3	Sahib Heri Sutomo	City Council (DPRD)	City Council
4	Heri Nurdi	City Council (DPRD), Staff	City Council
5	Shiska Meliana	City budget office	City Government
6	Syaharie Ja'ang	City Mayor	City Leaders
7	Zulfakar	City Administrator (SEKDA)	City Leaders
8	Kahar Albahri	Mining Advocacy Network (JATAM), Head	Civil Society
9	Carolus Tuah	Pokja 30, Head	Civil Society

City of TANJUNGPINANG Indonesia

No	Name	Organization	Type of Organization
1	Selamat Budiman	Shipyards Owner	Business Interest
2	Husnizar Hood	Past city councilor	City Council
3	Abdul Kadir Ibrahim	Secretary of City Council (past head of tourism department)	City Government
4	Dwi Saptarini	Tourism Office	City Government
5	Suryatati Manan	Past City Mayor	City Leaders
6	Riono	City Secretary	City Leaders
7	Chaidar Rahmat	Lekas Kepri	Civil Society
8	Alex Kolaai Putra	Lekas Kepri	Civil Society
9	Zamzami Karim	Rector of STISIPOL	Higher Education
10	Endri Sanopaka	Lecturer at STISIPOL	Higher Education

LOCAL RESPONDENTS – THE PHILIPPINES

City of DAGUPAN, Philippines

No	Name	Organization	Type of Organization
1	Reagan Lim	Jollibee Dagupan	Business Interest
2	Joey Tamayo	City Councilor	City Council
3	Ryan Ravanzo	City Council Secretary	City Council
4	Vladimir Mata	Past City Administrator (worked closely with past mayor Benjamin Lim)	City Government
5	Atty Jo	City Legal Officer	City Government
6	Farah Decano	City Administrator	City Government
7	Emmanuel Palaganas	City Planning Office	City Government
8	Belen Fernandez	City Mayor	City Leaders
9	Brian Lim	Vice Mayor	City Leaders
10	Robert	Dance Ensemble	Civil Society

City of MALABON, Philippines

No	Name	Organization	Type of Organization
1	Antolin Oreta III	City Mayor	City Leaders
2	Alan Gatpolintan	Department of Engineering	City Government
3	Cleah Nava	Department of Social Work	City Government
4	Carlos Dias	Malabon Alliance of Urban Poor (AIMM)	Civil Society
5	Anonymous	Anonymous	Civil Society

City of MARIKINA, Philippines

No	Name	Organization	Type of Organization
1	Roger S. Py	Philippine Footwear Federation, Inc.	Business Interest
2	Joseph Banzon	City Councilor	City Council
3	Reginald Tamayo	City Council Secretary	City Council
4	Vic Jayson Cruz	Head of Marikina City Library	City Government
5	Robert Baluyot	Marikina City Library	City Government
6	Lourdes de la Paz	Trade & Industry Office, Head	City Government
7	Gloria Buenaventura	City Environmental Management Office	City Government
8	Del de Guzman	City Mayor	City Leaders
9	Melvin Cruz	City Administrator (worked closely with past mayors)	City Leaders
10	Val Barcinal	Rotary Club	Civil Society
11	Jaime Cabalquinto	Rotary Club	Civil Society

City of NAGA, Philippines

No	Name	Organization	Type of Organization
1	Nicholas Beda A. Priela	Naga City Chamber of Commerce	Business Interest
2	Gabriel H. Bordado Jr.	City Councilor (past vice mayor, worked closely with Jesse Robredo)	City Council
3	Alec Santos	Arts, Culture & Tourism Office	City Government
4	Reuel Oliver	Information Technology Office	City Government
5	Huberto Ursua	iGovernance Office	City Government
6	Melissa Sieglinde Bulaong	Metro Naga Development Council (previously led the Productivity Improvement Program)	City Government
7	Nelson Legacion	Vice Mayor	City Leaders
8	Florencio Mongoso Jr.	City Administrator	City Leaders
9	John Bongat	City Mayor	City Leaders
10	Johann Dela Rosa	Naga City People's Council	Civil Society
11	Danilo Ludovice	Naga Urban Poor Federation	Civil Society

4. Appendix 4: Case-specific References

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