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SESSION 1- Decentralisation and Local Public Finance

**An initial overview of how education and career
background shapes local managerial strategies for
intergovernmental versus own local revenues: A case of
rural local governments in Mexico**

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Abstract

Fiscal decentralisation results in a complex design and managing of intergovernmental fiscal relations which can create incentives, good and bad, for local actors. From the managerial perspective, education and career background have been found to be relevant. But, how do education and career background influence the managerial strategies when dealing with intergovernmental transfers versus the generation of own local revenues? This paper presents an initial assessment to answer this question. Overall, the findings point to the importance of both education and career background, particularly entrepreneurship. They also indicate that local managers with these demographic characteristics adapt better to the decentralisation system and make use of a range of financial managerial strategies.

Keywords: fiscal decentralisation, intergovernmental transfers, own revenues, conditional funds, unconditional funds, managerial strategy, elected local mayors

Introduction

Decentralisation has spread rapidly in the last decades. By the end of the 1990's Manor had already acknowledged that nearly all countries had and still were experiencing some degree of decentralisation (Manor, 1999). By 2000, the World Bank stated that 95% of democratic countries have implemented some form of decentralisation and that this was not particular to democratic countries, with China being a good contrasting example (Rodriguez-Pose and Sandall, 2008, 54).

Broadly speaking, decentralisation is the delegation of authority to subnational levels. The normative arguments are based on efficiency grounds. The assumption is that delegating more authority and responsibility to subnational officials is expected to result in: a) higher responsiveness to local preferences and therefore, better citizens' welfare (Oates, 1972; Tiebout, 1956); b) first-hand information from which local governments can make relevant and more informed decisions (Oates, 1972, 1999); c) horizontal competition since it generates competition amongst subnational bodies (Tiebout, 1956; Tanzi, 1995) and because it splits up central

government's power it is argued to avoid inefficiencies originating from centralized power (Brennan and Buchanan, 1980; Jin and Zou, 2002).

There are different forms of decentralisation, numerous ways to decentralize and varying degrees of decentralisation. This paper is interested in fiscal decentralisation, without which there is not much genuine decentralisation of power. Fiscal decentralisation refers to the delegation of power and control over own local revenues, intergovernmental transfers and expenditures (Litvack, et al, 1999). Own local revenues means the direct collection of taxes and any sort of levies. This is an internal source of revenues for local authorities but it is highly constrained due to political and economic factors, especially in less developed areas such as rural municipalities; and intergovernmental transfers are the resources designed by central and state government levels as part of the redistribution of national income and as a way to avoid vertical and horizontal imbalance.¹ These are external sources of revenues and the grants' rules dictate the degree of discretion. Further differences can exist between different types of conditional funds, for instance in terms of regularity where some grants are a source of sporadic revenue for investment for local governments.

The core matter is that fiscal decentralisation has increased the amount of resources managed at the local level and as a result long term goals are now a function of local government performance (Avellaneda, 2009, 469). However, most countries around the world decentralised more expenditures than taxing power (Borge, et al, 2014). This means that local governments are highly dependent on central and state government. This financial dependency is especially true in small rural municipalities. The resulting complex fiscal design and managing of intergovernmental fiscal relations dictate the degree of control and discretion over financial resources. The degree of control and discretion along with the limited potential benefits of tax collection can arguably influence the elected mayors' response to implementing managerial strategies. Thus, this article will explore the managerial strategies of elected mayors in rural municipalities. Elected mayors or local managers (both are

¹ Vertical imbalance is created if expenditure responsibilities at lower government levels do not match their revenue raising power designated by upper government levels and horizontal imbalance if there are discrepancies on collection among the same government levels.

used interchangeably) play a key role in the performance of the municipalities because they mould and steer the administration and the decision making relies on them (Avellaneda, 2009 b, 288). This paper will use Mexico as a case study which falls into this common expenditure-dependency path.

A constant puzzle in social science when analysing public policies and public management, in particular, is the different degree of success of the policies amongst the unit of analysis. Reasons for this cross-site variation includes: structural characteristics such as policy direction, coordination, enforcement of the system; characteristics of the people for whom the system is designed and skills and motivation of public officials (Lynn et al; 2000, 234). Most research in public policy explores the decentralisation processes from the political and economic perspective and less attention is given to the managerial standpoint. However, the benefits of decentralisation in different areas and levels are still inconclusive (Faguet, 2015). Thus, managerial performance should be relevant.

The public management strategy literature looks at the influence of strategic actions on organisational performance (see Steven, 1984; Ahmed-Sebaa, et al, 2009; Andrews, et al, 2009) Similarly but to a lesser extent, researchers have explored the determinants of organisational strategy (see Andrews, et al., 2009; Ahmed-Sebaa, et al, 2009) and much less attention is given to managerial strategies in the context of decentralisation until recently (see Avellaneda, 2009a; 2009b; 2012; Carmeli, 2006; Kim and Oh, 2014). In the matter of determinants of managerial strategy, researchers have paid more attention to political and socio-economic factors such as partisan support and recession, which are external to the organisations, and demographic characteristics such as managerial quality, which are internal to the organisations, are underestimated (Avellaneda, 2009 a, 469). According to Poister, Pitts, and Edwards (2010) after a revision of 34 research articles published in peer review journals over the past 20 years, it was evident that the literature is inclined to study issues related to environmental stability, intergovernmental relations, fiscal autonomy, and political context factors. Thus, one notable oversight is how managers' backgrounds affect management strategies. Nevertheless, some studies have found that demographic characteristics, in particular education and career background, are relevant in managerial strategies of local mayors (see Avellaneda,

2009a, 2009 b, Jungbu and Seong, 2016). Thus, drawing on management strategy theories, this exploratory study seeks to answer the following question: How education and career background influence the strategic managerial decision of rural local mayors in the context of fiscal decentralisation? In order to answer this question, this article will analyse how projects reported to be enterprising by rural local mayors in Mexico were funded and the projects are cross-analysed with education and background experience of the mayors. The analysis is carried out using qualitative in-depth interviews of 44 former local managers, councillors and key local informants of 5 municipalities in Mexico from four different states using a purposeful sampling.

Studying management strategy at rural level is relevant because managerial strategies can be viewed as a measure of entrepreneurial activity and these strategies, therefore, can have potential human and long term economic implications (Stevens and McGowan, 1983, 527). In addition, context presents some very specific constraints at the organisational level which affect the nature of managerial behaviour (Smith and Perry, 1985, 276). This can include institutional context such as the governmental and intergovernmental systems (Bozeman and Straussman, 1990; Ring and Perry, 1958) (as cited in Poister, et al, 2010, 526). Thus, in rural municipalities the managerial decisions used to reach managerial actions might be different than in other developed local governments. If research is done and judged based on normative models without considering the contextual specifications, the results will be at the least inadequate (Smith and Perry, 1985, 281). Thus, this paper intends to contribute to the literature in a twofold manner by a) explaining the complex relationships between managerial strategies and demographic characteristics and b) studying the theory of fiscal decentralisation using the managerial strategy perspective in rural settings.

The rest of the article is divided into five sections: the first presents the theoretical background. The second is a description of local public finance in Mexico. The third introduces the methodology approach. The fourth section presents results and finally, the article concludes with a discussion of findings, limitations and future research agenda.

Theoretical background

In this section, managerial strategy is defined and the theoretical links between education and career background is justified. In addition, findings from empirical work are discussed.

Defining Managerial strategy

Managerial strategy in the public sector can be broadly defined as a means to achieve better organisational performance and public services (Boyne, 2003) (as cited in Boyne and Walker, 2004, 231). According to Andrews, et al (2009, 2), there are two distinctive facets of strategy, strategy process and strategy content. Strategy process makes reference to how the aims and actions are chosen and strategy content is the outcome of this process. At the same time, strategy content can be subdivided into two levels: strategic stance and strategic actions (Boyne and Walker, 2004, 240-41). Strategic stance is the general organisation's position in relation to the interaction with the internal and external environment. The strategic stance is based on Miles and Snow's (1978) private sector typology and it portrays the means public officials could response to new circumstances.² On the other hand, strategic actions are the steps to operationalize the strategic stance.

Several strategic actions have been identified in the literature and resource-seeking in the form of own-revenues and intergovernmental transfers are included. For instance, Stevens and McGowan (1983) identified six strategies for management in local governments:

- 1) **Resource-seeking** strategy that focuses on **external actions**
- 2) **Compromising existing authority** and financial position;
- 3) **Resource-seeking strategies** that focus on **internal sources** of revenue such as tax or duties
- 4) Additional **state aid and authority**

² Three strategic stances identified by Boyne and Walker (2004) are: Prospector – a public official who is innovative and rapid thinking. Defender – a public official with a conservative stand but committed to defend his/her share of public budget and Reactor – a public official with no stance but who adjusts the strategies according to environmental pressures.

- 5) **Shifting high cost items to the state level** (i.e. pension and public safety)
- 6) **Cutting internal activities** and service that commonly consume the largest proportion of government resources (i.e. safety and human services).

And Boyne and Walker (2004), using Porter's (1980) private sector typology of strategic content, classifies managerial strategies in public sector as follows:

- a) **Market:** Changes in market entry and exit to new groups of citizens
- b) **Service:** The provision of new services to existing users
- c) **Seeking resources:** Seeking revenues through raising fees and charges
- d) **Internal organization:** Changes in the structure, culture or leadership of the organisation such as in the process of formulating and implementing policies and managerial practices.
- e) **External organization:** Collaboration, networking, partnership, joint ventures, outsourcing or public-private partnerships to change provision of services.

Stevens and McGowan (1983) identify both own revenues and intergovernmental transfers (1 and 3) as strategies and Boyne and Walker (2004) include only own revenue collection (a). However, Boyne and Walker's list was developed as a more general matrix for the public sector whereas Stevens and McGowan focused their study on local governments. Regardless, own revenues and intergovernmental transfers, from now on referred to as *financial strategies*, are recognised in the literature to be part of the managerial strategies that local mayors can implement.

This research is interested in *strategic actions* and thus it only studies specific projects, plans and initiatives fostered by local authorities. It is beyond the scope of this research to identify strategic stance. The reason to focus on strategic actions rather than both stance and actions is because strategic actions are hard evidence of strategic content. They describe how organisations actually behave rather than merely focusing of "rhetorical" or "intended" strategies as in the strategic stance (Boyne and Walker; 2004, 241) and this study seeks to analyse in more detail **how** demographic factors shape the financial strategies. Thus, it is more viable to focus on concrete actions.

It is important to note that this study implicitly assumes that financial strategies are a pre-condition to implement other managerial strategies (i.e. changes in market and services) because in order to carry out local projects indisputably the local mayor needs to have the financial resources to do so. Similarly, managerial strategies seeking to increase the pot of financial resources in the municipality have as an ultimate aim to allocate the financial resources in other specific projects. At the same time, this research follows the rationale that education and career background are likely relevant indicators of how financial strategies are handled and this can have a direct consequence on the final managerial actions adopted by local governments.

The financial strategies can take different forms. For instance, Petrovsky and Avellaneda (2014) identified specific tax payment strategies: convincing taxpayers of the fairness or equity of the property tax; persuading taxpayers to pay taxes in exchange for receiving better services; lowering or increasing the tax rate, and forgiving past due interest to promote collection. For intergovernmental transfers, the strategies might depend on the degree of discretion in local hands. Some general strategies could include: obtaining extraordinary funds to increase the level of local budgets or cost-saving during the execution of projects.

For the purpose of this study, strategic actions will be classified into **financial managerial strategies**, which comprise raising own revenue collection and managing efficiently intergovernmental transfers and **final managerial strategies**, defined as any strategic actions that result from the process of a financial strategy.

Demographic characteristics as determinants of performance

The list of determinants of organisational performance is long. Avellaneda (2009 b, 285-6) summarizes the determinants into three factors: political, which includes ideology, partisan support, legislative oversight, type of government, citizens' participation, politician's motivation, and electoral competitiveness. Socio-economic determinants include budgets, inequality, governmental production and level of development and demographic explanations include the size and nature of the target

group as well as education and career background of local mayors. This study will focus on the last two.

Education

Education can be viewed as investment in human capital because it is not possible to separate a person from her/his knowledge (Becker, 1975, 16) and formal education is aimed at developing not only hard skills (technical and knowledge based skills), but also soft skills (communication skills, creativity, negotiation skills). Therefore, educated mayors, defined as per level of education, are expected to transfer both hard and soft skills into their work in the public sector. However, the hard skills found in local mayors are diverse because of the nature of elected roles and therefore, soft skills should be more relevant. These soft skills have been argued to add value for local mayors because they can facilitate social networking and therefore, social capital (Lin, 1999).

Career background

Local mayors can have either private sector experience, public sector experience, or both. Avellaneda (2012, 1065) conjectured that private sector experiences can bring private sector practices into the public sector. Private sector practices are often considered more efficient than public sector practices. This follows a wave of support for business type management indoctrinated by the New Public Management. The reason is that private sector employees tend to be more risk takers than in the public sector (Black, 1985, 215). Therefore, the managerial strategies selected by mayors with private sector experience might be more oriented towards efficiency gain.

Public sector experience includes formerly working in an elected public office, in a managerial or administrative role in a public office as well as in political parties. All these job experiences should make the managers more aware of public issues and the intergovernmental system as well as developing political networks. This background is likely relevant to local mayors because it facilitates identification of resources and it eases access to public resources.

It is important to notice that in both the private and public sector, mayors build social networks (Kim and Oh, 2014, 34) and they can use these networks to ease the implementation of managerial strategies. However, it is logical to assume that political networks facilitate the acquisition of resources. Therefore, local mayors with public sector experience should be able to seek external resources and exploit the intergovernmental system.

In reviewing empirical studies, both education and career background have been found to be relevant. In Latin America, Avellaneda (2009 b) found that mayoral quality measured as educational background and job-related experience has a positive association to municipal performance in terms of educational outcomes. However, this positive effect decreases when external constraints such as illegal armed forces are present in the area. In Colombia, Avellaneda (2009 a) studied the effect on mayoral quality on local public finance. Mayoral quality is measured as levels of educational background and job-related expertise and local public finance is measured as property tax collection and social spending per capita. She found that mayoral quality seems to be associated with greater public finance. Later, Avellaneda (2012) also explored whether politics or mayors' demographic characteristics influence municipal revenue expansion through success of the approval process for state and national grants. In this case, mayor's demographics were operationalized as mayors' age, sectorial experience (public, private, educational and agricultural sector) and education level. Results suggest that the driver mechanisms influencing the approval process of state grants differ from those influencing the approval process of national grants. In explaining approval success of state grants, the study reveals that politics is more likely to play a role at the state level but not at the national level. The results also suggest that mayors' background characteristics statistically add nothing to the success of the approval process for state and national grants, which is opposite to the expectations. Municipalities whose mayors are affiliated to the same party as their governor tend to receive more state but not national grants. The findings also suggest that mayors' sectorial experience from both the private and public sector improve municipal revenue expansion. Later, Petrovsky and Avellaneda (2014) studied tax collection strategies at the local level and found that the length of the mayors' prior public sector experience was positively associated with higher per-capita amount of property tax collected. The findings

suggest that a mayor's sectorial experience in public and private sector influences municipal revenue expansion compared to unspecified ones. Kim and Oh (2014) provide evidence that in Korea, local elected managers with a business career are less effective in securing external funding (grants), but better raising revenues from their own sources in relation to those with political experience.

Thus, the empirical evidence points to differentiation between own revenues and intergovernmental transfers and it gives support to demographic factors as being important determinants. But, is this applicable to rural settings? Are there any differences in handling specific intergovernmental grants? The next case study intends to shed some light on these questions by analysing how the demographic factors shape financial managerial strategies, which are likely to define the final managerial strategies. Before jumping into the findings, the next section will explain the methodology approach and design used to collect the evidence.

Mexican Local public finance

Mexico is a multi-level federal country. Power is divided into independent executive, legislative and judicial branches. It is divided into 32 states, a federal district (with 16 delegations) and consists of 2,438 municipalities with a total population of 112 million. Municipality or local government (henceforth used interchangeably) is the lowest tier of administration. This study is delimited to small rural municipalities. For the context of this study, small rural municipalities mean a local government with less than 30,000 inhabitants and where the primary sector predominates. A total of 1074 municipalities fall into these criteria. At the time of this study, most local governments were headed by mayors entitled democratically for a period of three years with no immediate re-election. Recently some states have extended or reduced the number of years. The council is composed of *sindicos* (councillors) and *regidores* (trustees).

The intergovernmental relations in Mexico are highly complex because there are areas where the three government levels interact. The federal government is in charge of issues related to the macroeconomic policies, defence and development.

State governments are in charge of matters related to education and health, and local governments are responsible for some local public services. However, federal and local governments are co-responsible for school building and the implementation of social programs. In regard to poverty, all levels of governments are co-responsible.

Local governments are responsible for drinking water, drainage, public lighting, refuse collection, cemeteries, streets, public parks and gardens, public safety, local markets and slaughterhouses. The revenue stream for local governments is composed of own-revenues and intergovernmental transfers. Own revenues include taxes (property tax, real estate transfer tax and other indirect taxes on agriculture, industry and commerce), user charges (*derechos* -the fees obtained via the provision of public services such as the fees that taxpayers pay for the consumption of water. *Productos*- the revenues collected for the use and exploitation of public goods such as the sale of public land or the rent of space on public markets) and *aprovechamientos* (all other revenues obtained which are not classified in the categories already mentioned). The most important tax for rural municipalities is property tax. However, local authorities are limited to collection and do not authorize tax rate.

In regard to intergovernmental transfers, local authorities are entitled to *unconditional funds* or revenue sharing and *mandatory conditional funds* or earmarked transfers which include two sources: Municipal Social Development Fund (FAISM) and Fund for Municipal Strengthening (FORTAMUN). FAISM is an earmarked fund only for investment on basic infrastructure projects in marginalised communities. FORTAMUN is a fund for public debt and safety. They also received discretionary funds from government agencies.³ Figure 1 shows the percentage of local revenues by origin in a selected group of rural municipalities. It is evident that rural municipalities rely heavily on intergovernmental transfers.

³ Extraordinary funds are not included in SIMBAD database of local finance.

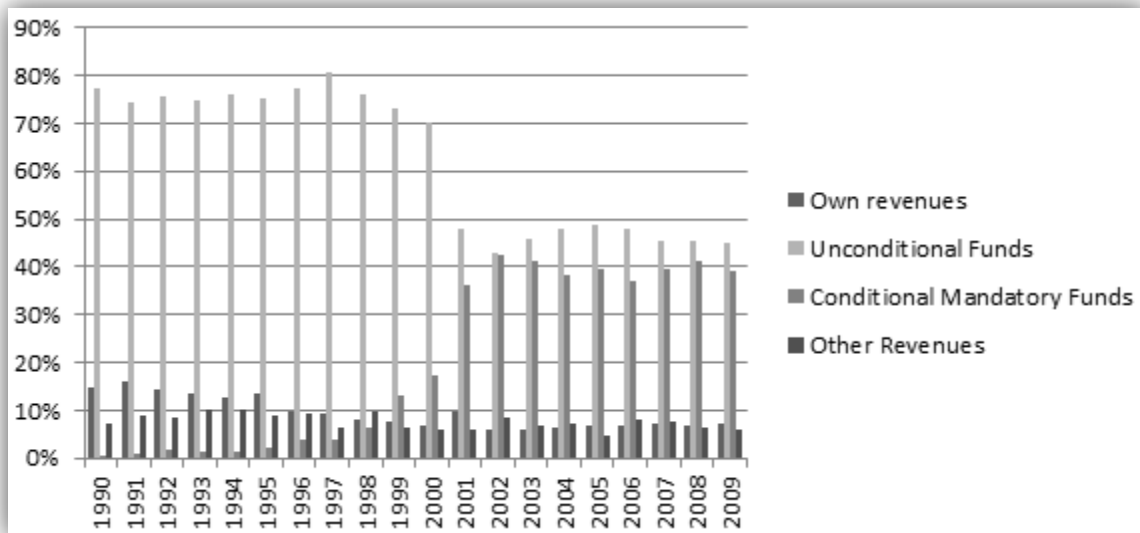


Figure 1 Percentage of Local Revenues according to Origin

This graph presents the total local revenues divided into: own revenue (tax subjects, user charges and other types of revenues); unconditional funds (revenue sharing) and conditional funds (earmarked transfer); and other revenue. The graph depicts the source as a percentage of total revenue from 1989 to 2009 in a working sample of rural municipalities. Source: Own calculation using SIMBAD database (Municipal System Database) by INEGI.

In regard to the political environment, important changes at the national political level such as turning away from one-party dominance, has eventually changed the political game at the local level. Party alternation is eventually increasing considering that in 1992, 91% of local governments were governed by the former dominance party, PRI and by 2010 this drastically dropped to 62% even considering coalitions in which PRI participated.⁴ In a working sample of rural municipalities, in 1992, PRI and coalitions governed roughly 94% of rural municipalities; PAN and coalitions roughly 2% and other parties and coalitions roughly 4%. By 2008, PRI and coalitions governed roughly 52% of rural municipalities; PAN and coalitions roughly 27% and other parties and coalitions roughly 21%.

⁴ Own calculations with working sample which fulfil the criteria of rural local governments used here

Methodology approach

This study adopts a multiple case studies approach. It employs a mixed methods approach with higher weight in the qualitative approach because the aim was to explore the application of theoretical bases in a specific context. The key concern was the selection of cases. Thus, purposeful sampling was used. Using publically available surveys and publically available data, the performance of the municipalities in a range of actions was explored. The selection of cases was based on two criteria: an analysis of changes in key local government actions⁵ and differences in the intergovernmental system at the state level. Four good performer municipalities (different range) and one poor performer municipality case were selected. The reason to use this sampling technique is that it yields a greater depth of information from a small number of cases as it allows contrasting cases, thereby allowing comparability. Four municipalities were selected based on the criteria mentioned above and one municipality was selected as a pilot study due to access, but it is also used in the analysis. After selecting the cases, a total of forty four semi-structured interviews were undertaken (see Annex 1). However, most of the narrative analysis in this study is taken from ten local mayors who were selected through the snowball-technique. More details in the discussion. The intention was to collect information from local authorities from different administrative periods as well as different political parties. The interviews were carried out in five rural municipalities in four different states in Mexico (Puebla, Oaxaca, Hidalgo and two in Tamaulipas,). The interviews lasted forty minutes on average and cover a range of issues some of them beyond the purpose of this article.

Data coding and management

NVivo, the qualitative software was used to manage data collected from interviews. Data was transcribed into Spanish and analysed in Spanish also. Only findings were

⁵ Two set of constructs were used: The first construct is based on accountability actions which includes indicators related to transparency, responsiveness in redistribution of resources and responsibility in investing in public work. The second construct is based on entrepreneurial actions which includes proactive, risk taking and innovative actions. It was operationalized as cooperation with public, private sector, association for public service provision, property tax updates and fiscal effort. However, for the purpose of this paper, good performers will not be differentiated by construct.

translated into English. The data was organized and analysed as follows: 1) data was imputed by interview questions; 2) a classification sheet was elaborated categorizing participants by position (mayors, councillor, others); the period they participated in local government; whether the governor was in opposition or not; whether they had working experience in public sector organisations; whether they had experience in politics; in the case of mayors, whether they had been re-elected; gender; level of education and the political party to which they belong and 3) conceptual levels were identified in each question and grouped.

Discussion of findings

A powerful finding that emerged from the interviews is that education is not perceived as a default feature of a good local manager. Local authorities were questioned regarding attributes of an enterprising mayor, and specifically the level of education, half of them consider education essential and the other half consider it “important” but not determinant for a good authority. There is no difference between mayors and councillors’ response. Participants pointed out that education is important because it gives skills for “negotiation”, help to make decision with an “open-mind” and are more prone to have “vision”. Thus, all the comments were related to soft skills expected to be developed during educational training. Contrarily, others participants report that education is in some cases related to corruption – “You do not need to be educated to do the work right. There are educated people and, because of their education, they know how to cheat on the people”. Instead, they consider that the nature of a good mayor is due to “innate characteristics” only one participant reflected on the importance of business sector experience. When the participant named the enterprising local mayors in his municipality, he recalled- “but, they are business owners”. In contrast to the perception of participants, the managerial actions present a clear pattern of how education and career background play a role in financial managerial decisions.

In order to facilitate reporting of these findings and the analysis, table 1 summarizes the examples of final managerial actions reported by the managers and the financial managerial actions used to fund these projects. In addition, it presents information by demographic characteristics. All participants were asked to name enterprising local

mayors and examples of enterprising managerial actions or projects. In each municipality in average two enterprising mayors were named by the participants and these managers were interviewed. It is important to note that mayors were not pointing out exclusively the projects run during their administration or by their political parties as it was enquired why the project was considered “enterprising”. Even though twenty-one mayors were interviewed, only ten were identified as “exemplary mayors” by councillors and mayors alike. In addition, the managerial actions listed in the table are not exhaustive and they were mostly reported by mayors, who were selected using the snowball technique. This means that these ten mayors are considered as model or exemplary local managers in these municipalities. This includes the mayors from the poor performer municipality.

The reason behind this limitation in the inclusion of examples is that there are differences in what councillors and mayors consider as enterprising. In many cases the same projects were identified and named by the participants. However, it was clear some examples from councillors were referring only to obvious tangible public works such as streets and public squares and they fail to identify a clear enterprising feature. It is important to consider that this is a study of rural municipalities. Therefore, the examples need to be read in context. Differently, most mayors talked about public works which were not as visible to the citizens and councillors as other projects. Some mayors pointed this out as a problem because they believe the work they do is not fully recognised by the citizens (i.e. preparation of sewage conducts before street paving). More importantly for the aim of this study, in most cases mayors could recall the funding process and councillors and key informants could not. Councillors and key informants were not familiar with financial details as the mayors are expected to be. In retrospect, most of the narrative information analysed in these article comes from ten participants, all local mayors who were identified as exemplary mayors through the snowball technique.

As visually displayed in Table 1, most of the selected mayors hold a higher education degree. This is good evidence that education plays an important role in performance as these mayors were selected due to positive changes in factual performance and are perceived positively by locals in the municipality. In regard to career background, the evidence shows that most of the mayors selected are

specifically business owners. From now on I will refer to them as entrepreneurs. Most of the entrepreneurs are educated at university level with the exception of two mayors selected in the Good Performer Municipality 1 (GPT-1). These mayors are not educated at university level but they have proved to be successful business owners and they have an extensive political career. It is important to note that GPM-1 presents the highest factual change in performance compared to the other municipalities.

Interestingly, a remarkably few number of mayors with only political experience or with a career background other than public and private sector were selected as enterprising mayors. Thus, it seems that a career background in the private sector particularly as an entrepreneur can be a key factor in performance and positive perception of managerial work.

Looking at financial managerial strategies, it is evident that education and entrepreneurship play a role in how own revenues and intergovernmental transfers are managed by local managers. Most good performer municipalities (1, 2, 3, and 4 in Table 1) have had mayors that hold a higher education degree and a background as entrepreneurs and they use different financial managerial strategies and a range of projects. This contrasts with the Poor Performer Municipality (PMM) where these factors are missing and only projects funded with intergovernmental transfers were mentioned.

Table 1 Managerial actions and Demographic factors

	Final managerial strategy	Financial managerial strategy						Demographic factors			
		Own revenues	Unconditional funds	Mandatory Conditional	Extraordinary Conditional	Private Sector/ Community	Reasons to be considered strategic	Education	Business owners	Public sector	Others
Good performer (1) GPM- 1	Industry	√					vision		√	√	
	Trust	√					innovation		√	√	
	Basic Public Service (electricity)		√	√			collaboration with the community		√	√	
	Highway				√		Level of resource obtained		√	√	
	Industry	√			√		vision		√	√	
Good performer (2) GPM- 2	Council houses				√		Level of resource obtained		√	√	
	Trash collection	√			√		negotiation	√	√		
	Collection of toys	√				√	collaboration with private sector	√	√		
	Hunting ranch	√	√		√		collaboration with other municipalities	√	√		
	Streets	√			√		cost-saving	√	√		
	Highway				√		Level of resource obtained	√	√		
	Clay and Craft Ovens				√		cost-saving	√	√		
	Sport complex				√		Level of resource obtained	√	√		
	Industry				√		vision	√	√		
	Water treatment system				√		collaboration with other municipalities	√	√		
Good Performer (3) GPM -3	Houses				√	√	Quality and collaboration with private sector	√	√		
	Water purification unit			√	√		Innovation and collaboration	√	√		
	Roads				√		Level of resource obtained			√	
	Water-well				√		Vision			√	
	Stoves				√		Vision	√	√		
Average Performer (4) GPM -4	Sewage				√		Cost-saving	√	√		
	Suspension bridge	√				√	Negotiation	√	√		
	Land valuation	√				√	Cost-saving	√	√	√	√
	School services	√				√	Innovative approach and negotiation	√	√		
Poor performer PPM	Houses					√	Level of resource obtained	√	√		
	Council Houses				√		Level of resource obtained				√
	Sports Centre				√		Level of resource obtained				√
	Business projects				√		Level of resource obtained				√

GPM stands for Good Performer Municipality. They are presented in order of performance 1 means the highest and 4 the lowest of the group. PPM stands for Poor Performer Municipality. In demographic factors, **others** include farmers, mechanics and professionals.

Financial managerial strategies for own-revenues

In table 1, it can be observed that most educated managers and all business owners who made use of own revenues as a financial managerial action, in contrast to the poor performer town where managerial actions were mainly financial strategies derived from intergovernmental transfers. Few participants with only public sector experience were identified as exemplary local managers and the examples provided by them were also related to financial strategies using intergovernmental transfers. This is also the case for participants with other career backgrounds.

Participants explained that property tax, which is the main source of tax revenue for municipalities in Mexico, is insufficient for undertaking their duties as providers of public services. — *“Own revenues collected through taxes... are very scarce. Here, we can say that the only tax that exists is the property tax... But, it is very scarce because some people have not legalized their lands. It is in fact, very limited. For instance, if a mayor is running out of money for the month and call the people to pay the property tax, two, three, or four people show up...it is around 50 pesos (2.5 pounds) for a piece of land. It is insufficient what you can collect and to make things worse, it is paid annually”.*

In spite of these difficulties, participants with education and entrepreneurs implemented financial strategies which sought to increase own revenues in order to fund innovative, productive and long term projects (see column called, *Reason to be considered strategic*). It is clear that own revenue collection is not the main revenue for the projects but they were often used in combination with unconditional funds or extraordinary funds. Thus, it seems that education and business ownership seem to encourage financial strategies aiming at plans with long-term impacts. For instance, in two projects mentioned by GPT-1, own-revenues were used to collaborate with industries that could potentially settle down in the municipality with the aim of increasing employment and receiving higher and stable own-revenues. “...People want jobs. In my time as a mayor, the local government supported a textile factory. The textile industry came to ask for support and we agreed (the textile industry was redirected to the local government by the state economic development ministry). Local government participated with installation expenses- paid with own revenues”.

Other examples related to own-revenues are more oriented to efficiency changes. For instance, the example labelled *land valuation* in table 1, GPT-4 is considered enterprising because local authorities hired an expert in land valuation with the aim of increasing the tax base. However, an expert was not the only cost associated with land valuation. Workforce was required to undertake the field work. The mayor decided to invite students from the local high school to collaborate as part of the compulsory social service. Students were trained and divided into groups for visiting local properties that were detected as irregular due to low land valuation. At the end, the revenues from property tax increased by 78% that year without raising the tax rate. The initiative of local government minimised costs and increased its own local revenues in adverse circumstances. Thus, own-revenues is not the aim, but the vehicle for long-term strategies.

Financial managerial strategies for intergovernmental transfers

The use of managerial strategy for intergovernmental transfers depends on the type of transfers and the level of discretion delegated. In regard to unconditional funds, these are resources with high levels of discretion and are mainly used for current expenses. Few examples were mentioned for this type of financial strategy but all of them were reported by local managers who are educated and entrepreneurs. For instance, in the *hunting ranch* project (see table 1, GPT-2) mayors collaborated with different municipalities to create a regional hunting ranch to increase tourism and a percentage of unconditional funds and own-revenues were allocated for this project.

Mandatory conditional funds and extraordinary conditional funds are earmarked to a general and specific expenditure. They are reported to be used more often with strategies of cost-saving and improvements in quality of services because local mayors are in charge of redistribution. Cost-saving can be pursued in cases where execution of the public work is delegated. For instance:

“When I execute the public works, I am able to decrease the cost. HOW DO YOU DO IT? For instance, for public work worth 1.5 million pesos you can buy cement at 500 pesos but in reality it cost 100 pesos. In this way, I can save. Public work worth 1.5 million I know I can do it for 500- 700 thousand

(pesos)...it is the engineers' mafia. They tell you what to do... Another example, the new state program called PESO A PESO (50%-50% share between state and local governments). Not even people from the same political party as the governor agree with the program. The state executes the work. A public work worth 1 million pesos, they value it for 2 million pesos. Let's say that we execute the job and the state government says it costs 2 million pesos. In this case, it does not matter if they inflate the numbers, because we can do something with the savings. But that is not the situation, they execute the work. The municipality puts one million pesos (50% share) and I know that I can make it for 700 thousand. We are giving away 300 thousand pesos to them and we are still the means to get 1 million more. In the first year of my administration, it happened. I did not know. They took me by surprise. I gave them 5 public works at around 5 million. But sewage that cost 1 million pesos, they value it for around 3 million pesos. I did exactly the same sewage work for 1 million pesos and with the same level of quality. Besides, if they do the work, they do not come back to fix details".

Again, these strategies were reported by GPMs where education and business ownership are present. Conditional extraordinary funds were reported by all the municipalities but it is particularly noticeable that in the PPM, local managers mentioned only this type of fund and grants were considered enterprising only because of the level of financial resource invested in the municipality. Interestingly, most of the critics by councillors and key informants about funds were related to extraordinary conditional funds because they consider some of these projects are not a priority in the municipality, or are aimed at individual support rather than collective benefits (entrepreneurial projects) and are left often unaccomplished because the municipality do not have the financial capacity to afford its part.

Participants with higher education who are also business owners reported more managerial actions using collaboration with public, private and social groups. All of them show the capacity to bring funds from public agencies and be able to make alliances in the public sector and with social groups. For instance,

“...it is not only about getting money from state government; a mayor can also get money from the private sector. CAN YOU GIVE ME AN EXAMPLE? When I was a mayor Channel 13 gave us toys for children’s day. Sabritas (a crisp company) gave us crisps for the children. PEMEX (Oil Company) gave us some wheelchairs for disabled people. ...I know that there are other public institutions that can help, even in the embassies. All is all about knocking on people’s doors”.

Examples of collaboration with public, private and social groups were missing in the PPM which has had only local managers from a background other than private and public sector.

The extraordinary funds require high levels of lobbying. In three out the five municipalities, mayors that were in opposition to the state government were keener to obtain extraordinary funds from federal agencies instead of negotiating state funds due to political reasons. This includes the PPM. However, the PPM obtained the extraordinary conditional funds with the help of a politician from a nearby town, who is considered a high political figure in the region and who also participated in this study. Therefore, the actions can be easily dismissed as a contribution from these local mayors. In contrast, both educated mayors and business owners were able to secure funds even when they were in opposition to the state.

Discussion of findings, limitations and future research agenda

This initial exploratory exercise presents some interesting findings. The core argument of fiscal decentralisation is that local authorities or local managers are incentivised when financial resources are delegated to local mayors because this gives room to be responsible and responsive to local citizens. However, fiscal decentralisation at the lowest level of government and particularly in rural municipalities has been warned to be more prone to inefficiencies due to administrative drawbacks and being more susceptible to corruption practices (Prud’homme, 1995; Tanzi, 1995). Indeed, the findings suggest that delegation of resources is not the panacea that triggers efficiency. The complex fiscal system and the political games where the work is performed require specific skills to make most

of the resources available at this level. The partial decentralisation of resources has likely contributed to this process as it has opened up new pathways for local officials to distinguish themselves and to increase budget. Thus, policymakers should be aware that the decentralisation process is being interpreted in this way by local managers in rural areas. In this research, it has been shown that in order to achieve positive results under fiscal decentralisation, local mayors need to have the skills to implement managerial strategies and soft skills acquired from education and entrepreneurship are of relevance.

These findings provide strong support for the findings of Avellaneda (2009a), Petrovsky and Avellaneda (2012) and Kim and Oh (2014) that demographic factors are relevant indicators of managers' performance. It is also in line with the findings in Avellaneda (2009b) that mayoral quality could improve public finance. These findings cannot explain clearly the contribution of education and career background in managerial strategy separately and it supports Avellaneda's (2009 a, b) approach to evaluate mayoral quality rather than individual factors. Although at the general level this research is in line with previous works, there are some specific results in which the findings differ and other results that provide clarity and alternative explanations for the specific group under study, rural municipalities.

Avellaneda (2012) found that politics play a more important role in the approval process of state grants but not at the national level and that mayors' background characteristics add nothing to the success of the approval process. The findings in this study show that the approval process at the state level indeed proved to be more difficult in some cases and mayors were keener to obtain national grants. However, in the case of Mexico, the approvals of national grants in this group of municipalities seem to be a consequence of political affiliation as most of these mayors were vertically divided with the state but not with the national government. In contrast, the evidence here suggests that education and career background seem to make a difference in the success of grant applications. However, other factors such as political networks are also relevant.

As stated above, this research supports Petrovsky and Avellaneda's (2014) findings in that mayors' sectorial experience in the private sector influence municipal revenue

expansion. However, it differs in regard to public sector experience adding to municipal revenue. This study shows that few mayors with only public sector experience were considered enterprising managers and they did not present financial strategies for an effective increase in municipal revenue expansion. What this study adds is that the sectorial experience likely to be relevant is specifically entrepreneurship.

Kim and Oh (2014) found that local managers with a business career are more effective in raising revenues from own-resources but not from external funding. In this study a business career seems to be more effective for both own-revenues and external funding.

It is important to highlight that the differences are highly likely to be the result of the delimitation of cases to rural municipalities. In other words, it is a matter of quality and quantity of education and level of skills developed during the professional career. In the rural municipality having education and a business career makes a difference. This does not diminish the importance of these findings.

Thus, the key findings in this research are that managers who are educated and have a strong entrepreneurial background as business owners report that they diversify their relationships to both private and public organisations as well as thinking ahead. Entrepreneurial skills created in the private sectors, are beneficial for the “transfer game” imposed by the system. Therefore, these specific demographic factors shape the financial strategy as 1) they use a broader range of financial resources and 2) they seek efficient implementation through cost-saving and productivity. In comparison, managers who are not educated or with only a public sector career only provide examples of pursuit of funds. They focus on advocacy. Thus, there is a strong reliance of networking and governments funding. However, entrepreneurs are also becoming more politically sophisticated and promote more collaborative alliances and negotiation skills. Managers see as their contribution to the partnership between levels as one of informing the realities on the ground, and how to redistribute the public services. In this way, advocacy is an important method by which local authorities are attempting to implement managerial strategies and they use specifically extraordinary conditional funds.

In regard to fiscal decentralisation arrangements, the findings suggest that discretion in allocation decisions and execution are the key motivation and managerial tools in funding.

- 1) Own revenues are highly limited in the level of collection and unconditional funds are limited to local expenses but both give room for implementing innovative approaches and as a way to complement other types of funding. Negotiation skills are highly important.
- 2) Conditional funds constrain the allocation of resources but gives freedom in redistribution and room for cost-saving. Therefore, financial skills are relevant.
- 3) Extraordinary conditional funds give room to cost-saving when local mayors execute the project (when the project is viable for execution by the local government). Financial resources, negotiation and networking are all important.

It is difficult to separate the benefits from education and from background experience because what benefits managerial practice are the soft skills that should be built on both Higher Education and during a business career. This is precisely the interesting finding in this analysis. Pyysiäinen (2006) presents a list of entrepreneurship skills. Some skills are personal and difficult to train such as innovation, initiative, risk-taking but other interpersonal skills such as negotiation and process skills such as planning and organization can be taught. Thus, there are entrepreneurial skills that can be trained and implemented in the public sector which can benefit the public sector. They should be part of the training in Higher Education thus, while the level of education in the country is increasing, this will benefit this group of municipalities.

Findings from this study have important implications given the diversity and uncontrollable selection of local majors in the countries. It shows that at this level of government, high dependency on intergovernmental transfers should not be debated in terms of lack of autonomy but in terms of discretion in allocation and execution. It also shows that by investing in education, there is a hopeful future in terms of improvements in local efficiency and finance, but more importantly this can be improved faster by fostering training in entrepreneurial skills. This indicates that we need to change the way we think about managerial strategy in rural municipalities.

Explanations about demographical factors should not rely on pure preconceptions about public sector idealistic and altruistic actors; rather we need to recognize the positive effect that private sector minds and skills can have in social change. It should not assume general outcomes and missed important insights of short term changes that can have a closer impact. Having a better understanding of how demographic factors shape the managerial decisions of local public officials assist in the efforts to help rural local governments to be more effective in management funds and therefore, it calls for support in entrepreneurial training of local officials.

Future research should look into the degree to which these groups benefit for such training. One limitation of this study is that the examples reported by the respondents about how they use different funds did not include data from different sources to corroborate. In addition, the examples presented here were not delimited to only successful projects in the long term but rather perception of enterprising managerial actions. Thus, causation cannot be confirmed. In addition, like all qualitative research, there are limitations to the generalization of these findings. However, these findings may be helpful for understanding how not only education, but also entrepreneurial skills can impact on other fields and groups where similar conditions, such as high level of government dependency and economic limitations, exist. Future research that provides a more detailed comparison between managers emerged solely with public sector careers compared to managers who have built their own enterprise, at this level of government and perhaps other government levels, would also yield important insights as to the degree to which these findings are country and group-specific.

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Annexes

Description of participants	Total
POSITION IN THE LOCAL GOVERNMENT	
MAYOR (M)	21
COUNCIL (C)	19
COUNCIL-SINDICO (CS)	2
JOURNALIST (J)	1
MANAGERIAL (M)	1
POLITICAL PARTY	
PRI	31
PAN	10
OTHERS PARTIES	3