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Cities learning from other cities: How local governments adopt public innovation from their peers in the context of decentralization

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Cities learning from other cities: How local governments adopt public innovation from their peers in the context of decentralization

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Abstract

Most of what is known as innovation – be it in the private or public sector domains – are not original; they are learned. And in a setting where public innovativeness is rewarded administratively and politically, local government leaders are racing to seek and adopt new policy ideas. How do these leaders learn about new and relevant policies? How do they adopt and transfer these into their cities' unique contexts?

This paper examines the information costs of conducting public innovation for city governments in Indonesia and the Philippines through a comparative study of eight mid-sized cities. I find 'innovative' city governments tend to be associated with travels and knowledge of other cities, as well as participation in inter-city networking compared to the more 'typical' city governments.

Keywords: policy transfer; policy learning; public innovation; information cost; Indonesia; Philippines; city governments

1. Introduction

The literature on policy transfer has expanded in various ways (Hadjiisky, Pal, and Walker 2017) but still much of the focus is on country-to-country transfer. Despite the inclusive definition of policy transfer, namely "…process in which knowledge about policies, administrative arrangements, institutions and ideas in one political setting (past or present) is used in the development of policies, administrative arrangements,

institutions and ideas in another political setting" (Dolowitz and Marsh 2000), we still have not seen much research on city-to-city transfer. In an era where cities play an increasingly important role to deliver public services and drive economic growth, it is imperative that we learn more about how policy transfer occurs at the local – and more specifically city - level.

There are at least two opportunities to better understand local-level policy transfer: by exploring the literature on (1) policy mobility and (2) public innovation. The policy mobility literature adopts a largely sociological view of how policies move and mutate from one place to another with a heavy place-based analysis commonly associated with the field of geography (for example, McCann 2011; McCann and Ward 2013; Peck and Theodore 2010; Peck 2011). Meanwhile, the public innovation literature largely adopts an organizational approach to innovation and is typically associated with the field of public administration (for example, see Windrum and Koch 2008, Osborne and Brown 2013, Stewart-Weeks and Kastelle 2015, De Vries, Bekkers, and Tummers 2015). Although there are differences in their emphases, I argue that there is a substantial overlap in in the policy transfer, policy mobility, and public innovation literatures to help us better understand the process of city-to-city policy transfer.

In this paper, I focus on an opportunity to look at public innovation as an alternative angle to better understand policy transfer. Most of what is known as innovation – be it in the private or public sector domains – are not original; they are learned (Lee and Rodríguez-Pose 2013). And in a setting of decentralized and democratic government, where public innovativeness is rewarded administratively and politically, local government leaders are racing to seek and adopt new policy ideas, often termed as 'public innovation', but also reflects much of the theories and practices related to 'policy

transfer' and 'policy learning.' Considering the increasing attention on public innovation in the past few decades, further analyses of public innovativeness – a character supposedly shown by winners of public innovation awards - may help provide leads to cases of policy learning, policy transfer, policy diffusion, and policy mobility.

This paper offers a theoretical framework to answer the question 'why are some city governments more innovative than others?' Drawing from theories of transaction cost (Williamson 2010), I argue that public innovation by way of policy transfer is more likely to occur when the transaction costs of conducting such transfer is low. Since learning is a large part of innovation, policy learning is more likely to happen when city governments face low information costs (efficient ways of obtaining and processing information). Thus the likelihood of certain cities to learn from other cities can be gauged by understanding the 'costs' related to such a learning process.

The Philippines and Indonesia provide a fertile ground to study local government performance and innovations due to both countries' relatively recent adoption of large-scale decentralization and democratization efforts (World Bank 2005). Drawing from data of public innovation award winners therein, I identified four 'innovative' and four 'typical' (non-innovative) mid-sized city governments in Indonesia and the Philippines and analyzed the extent to which efficient information costs were present in these cities. I find that 'innovative' city governments showed notable presence of efficient information costs, while 'typical' city governments tend to show such characters to a smaller extent. However, one 'typical' city government showed as much presence of efficient information costs as the 'innovative' ones. This seems to suggest that having efficient information costs was insufficient to explain innovativeness.

The structure for the remaining part of the paper is as follow: *First*, I present a background highlighting the rising attention on public innovation and clarify some key definitions. *Second*, I present a review of how public innovation has been studied and the proposed alternative angle to look at public innovation from a transaction cost framework and more specifically the aspects of information costs. *Third*, I describe the research methodology used in this research, which is a cross-case comparative study of 'innovative' and 'typical' city governments in Indonesia and the Philippines. *Fourth*, I present the findings of the study, highlighting key differences between the 'innovative' and 'typical' city governments. *Finally*, I conclude by highlighting key lessons that this research could provide for the literature on public policy and public management, and more specifically on policy transfer.

2. Background

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*, *Innovative City of the Year Award*, *Guangzhou International Award for Urban Innovation*, and Bloomberg Philanthropies' *Mayors Challenge* competition are just a few of the recently established initiatives to acknowledge bold ideas well-implemented by city governments. The U.S. was among the first to recognize local public innovations through the *Innovations in American Government Award*, which started in 1986. In other parts of the world we also find the *European Public-Sector Award* and the *All Africa Public Sector Innovation Awards*. And in Asia, there are initiatives like the *Chinese Local Governance Innovation Award*, Indonesia's *Urban Management Innovation Award*, and the Philippines' *Galing Pook Award* for innovation and excellence in local governance.

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). Second, by examining the extent of novelty, an innovation can be considered as *radical* or *incremental* (Bessant 2005, Moore 2005, Albury 2011, Borins 2000a). Third, based on its motivation, innovation can be considered as *compulsory* or *voluntary* (Lorsuwannarat 2013, Windrum and Koch 2008), where compulsory or 'top-down' innovation happens when an organization with higher level of authority instructs the implementation of a new program (Gray and Walker 1973, Walker 1969). Fourth, based on the initial source of idea, innovation can be *original* or *learned* (Lee and Rodríguez-Pose 2013).

Innovation in the public sector is defined similarly as in the private sector. The goal of public innovation is arguably to achieve 'public value' rather than private profit, but two main characters – newness and implementation – remain key (Mulgan 2007, p. 6). Traditionally associated with the domain of the private sector, innovation is increasingly being expected from public agencies. 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 identify and provide services that are in-line with changing citizen's needs (Bason 2010, Commonwealth of Australia 2009, Albury 2011) and thus improve the public sector's legitimacy (Bloch et al. 2009, Vigoda-Gadot et al. 2008). Public innovation is also 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 better economic performance of the country (Commonwealth of Australia 2009, Bloch et al. 2009).

There are close relationships between the literatures on innovation with the notion of policy change. For example, a learned innovation is heavily related to the concepts of policy learning (Rose 1991, Bennett and Howlett 1992), policy transfer (Dolowitz and Marsh 2000, Evans 2004, 2009), policy diffusion (Gray and Walker 1973), policy convergence (Bennett 1991), policy mobility (McCann 2011; Peck 2011), and 'urban inter-referencing' (Bunnell 2015; Phelps et al. 2014).

3. Literature Review

Along with increased public attention, academic studies of public innovation have expanded considerably (i.e., Windrum and Koch 2008 provides a review of past studies). Public innovation 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' that

includes generating possibilities, incubating and prototyping promising ideas, replication and scaling up, and analysis and learning.

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. Since the term 'innovation' covers a wide range of items, the increasing expectation for companies to innovate have led surveys to result in a surprisingly large number of actual innovations conducted – indicating possibility of over-estimation (Libbey 1994, Borins 2000b, Bloch and Bugge 2013, Unger 2005). Number of patent registrations are similarly problematic as some have argued that patents are more reflective of invention rather than innovation. Also, R&D data are often difficult to disaggregate and not very helpful to identify innovations, which are more associated with 'development' rather than 'research' (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 may give a more optimistic view on public innovation than it really is.

Explaining Innovation

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 Kastelle 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 (Mulgan 2007). Another list presents four institutional factors that encourage and discourage local public innovation: national politics, networks and partnerships, incentives, and citizen demand (Newman, Raine, and Skelcher 2001).

'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). These topics have been widely explored in the field of New Institutional Economics (Ménard and Shirley 2008, Ostrom 2005), especially through a transaction cost analysis (Williamson 2010, Coase 1937).

Transaction Costs

Transaction costs can be understood as 'the costs of running the economic system' (Arrow 1969). The notion of transaction costs was initially developed to explain the variety of governance structures in firms (Williamson 1996, 1979, Coase 1937). Transaction costs have been utilized to approach a wide range of questions. In relation to innovation and policy transfer, transaction costs analysis is linked to the processes of learning across different organizations or 'open innovation' (Nooteboom 2007, Remneland-Wikhamn and Knights 2012, Kortelainen, Kutvonen, and Torkkeli 2012).

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. 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. Thus, I argue that transaction cost perspectives could give insight to explain public innovativeness.

Transaction costs are made up of three main components or types: (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).

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).

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. In the context of public innovation, negotiation costs involve efforts 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 stakeholders.

Enforcement costs refer to the costs of to monitoring the performance of those who conduct the innovative activity, after the agreement or approval has been secured. Enforcement is closely related to the literature on public sector performance (Wholey 1999, Williams 2009, Hatton and Schroeder 2007), and policy implementation (Sabatier and Mazmanian 1980, Pressman and Wildavsky 1984, Bardach 1977). It is commonly analyzed through the lens of the 'principal-agent' problem (Ross 1973, Jensen and Meckling 1976).

More Specifically, Information Costs

A key component of transaction costs explored in this paper is information costs. 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). Such information, knowledge, or 'lessons' can be accessed by the public innovator trough: (1) access to information and communication technology (ICT), (2) referrals from personal and professional networks, and (3) direct 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. The spread of successful innovations also often depends on the publicizing of successful pilots (Mulgan 2007).

Policy makers, however, can be overloaded 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). 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 (Bulmer and Padgett 2005), but personal trips could similarly be effective (Marsden et al. 2011). Studies have pointed out that policy transfer is more likely among places which are geographically and ideologically proximate (Kern, Koll, and Schophaus 2007).

4. Methodology

This research adopts a 'retrospective' approach that tries to explain a given outcome (public innovativeness) that is already established at the start of the study. The research can also be considered a 'case-control' comparative study where insights are gained from cross-case analysis rather than from individual case reports (Yin 2009).

Outcome Variable

The phenomenon or 'outcome' being explained in this research is *public innovativeness*, referring to the extent to which innovations or innovative programs have been introduced by a city government (not each innovation in detail). This could be measured in multiple ways. As discussed earlier, 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'.

To deal with such measurement limitations, I measure public innovativeness through a *binary* construct (i.e. innovative, not innovative/typical) rather than a continuous construct (i.e. number of awards received, number of innovations reported) or ordinal construct (i.e. highly innovative, rather innovative, less innovative). The binary construct concurs with the goal of this research: to identify possible differences between 'innovative' and 'typical' cities.

A list of innovation award winners helps to identify 'innovative' city governments, despite the biases that come with the awarding process. Cities that have won multiple awards can be argued to be among the set of 'innovative cities', even if there are other cities that were more innovative. To ensure variation in the outcome variable, there is a need to identify 'typical' city governments to be compared and contrasted against the 'innovative' ones.

Explanatory Variables

This research examines the notion of 'information costs' in contributing to policy learning and innovation. The framework explores the 'presence' or 'absence' of explanatory factors related to information costs in a city, and expects that public innovativeness may be related to the presence of efficient information costs over time.

Information costs refer to the effort needed by the city leaders 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 those 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).

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 and understanding of 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.

Research Method

The research uses Qualitative Comparative Analysis (QCA) method to see whether an explanatory factor is 'present' or 'absent' in an observation by translating 'thick' case descriptions 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).

This approach conforms to the comparative analysis method adopted in Elinor Ostrom's seminal book, *Governing the Commons* (Ostrom 1990). In her attempt to identify what distinguishes institutionally robust common pool resources (CPRs) from failed and fragile ones, Ostrom identified 'robust' institutions in the form of long-enduring, self-governed CPRs, and analyzed of the extent to which common 'design principles' (derived from the 'robust' cases) apply to the 'failed' and 'fragile' cases (similar to 'hypothesis testing' in quantitative research).

Case Selection

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 that have won a relatively large number of innovation awards in both countries. The 'typical' cities were selected from a sampling frame of non-winners, with subsequent 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, such as population size, city income, and social characteristics.

Table 1: Eight Cases of Mid-Sized City Governments in Indonesia and the Philippines

	Philippine Cities	Indonesian Cities
'Innovative' Cases	1. **Marikina City,** National Capital Region Cityhood: 1996 Population: 424,150 (2010) Legal Class: Highly Urbanized Income: 1st class (GDP > P400 mil)	1. **Balikpapan City,** East Kalimantan Province Cityhood: 1959 Population: 557,579 (2010) GDP: Rp 47.1 trillion (2012)
	2. Naga City, Camarines Sur Province Cityhood: 1948 Population: 174,931 (2010) Legal Class: Independent Component Income: 2nd class (GDP: P320-400 mil)	**2. Pekalongan City,** Central Java Province Cityhood: 1950 Population: 281,434 (2010) GDP: Rp 4.6 trillion (2012)
'Typical' Cases	1. **Malabon City,** National Capital Region Cityhood: 2001 Population: 353,337 (2010) Legal Class: Highly Urbanized Income: 1st class (GDP > P400 mil)	1. **Samarinda City,** East Kalimantan Province Cityhood: 1959 Population: 727,500 (2010) GDP: Rp 35.8 trillion (2012)
	2. Dagupan City, Pangasinan Province Cityhood: 1947 Population: 163,676 (2010) Legal Class: Independent Component Income: 2nd class (GDP: P320-400 mil)	**2. Tanjungpinang City,** Riau Islands Province Cityhood: 1983 Population: 187,359 (2010) GDP: Rp 2.9 trillion (2012)

Source: Author, from Indonesia and Philippine statistics

The Philippine government has been conducting a prestigious, national-level award to 'recognize innovation and excellence in local governance'. The *Galing Pook* (GP) Awards[1] have been given since 1994 by the president to programs conducted by local government units or LGUs (provinces, cities, municipalities, or barangays). Every year, the GP Awards were given to 16-20 local programs, reaching a total of 328 awardees as of 2014. Naga City in Camarines Sur and Marikina City in the NCR were selected as cases of 'innovative' city governments as they have won the most number of awards (ten and eight awards, respectively) compared to other cities. They also concur with the study's focus on mid-sized cities: In 2010, Naga's population was 174,931, and Marikina's was 424,150. To compare and contrast against Naga and Marikina, Dagupan City in Pangasinan was selected as a 'typical' city that controls for Naga, and Malabon City in the NCR was selected as control for Marikina.

In Indonesia, the Urban Management Innovation (*Inovasi Manajemen Perkotaan* or IMP) Award started in 2008 to recognize innovative programs in the fields of urban management. Seven out of 93 Indonesian cities between 2008 and 2012 have won at least two IMP awards. Pekalongan City in Central Java and Balikpapan City in East Kalimantan have won the award in all three occasions that it was conducted. Both cities also fit the criteria of mid-sized cities. In 2010, Pekalongan's population was 281,434 and Balikpapan's was 557,579. With similar method as for the Philippines, the selection of 'typical' cities in Indonesia results in Samarinda City in East Kalimantan (to control for Balikpapan), and Tanjungpinang City in the Riau Islands (to control for Pekalongan).

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,

[1] *Galing pook* means great places. The award's website is at http://www.galingpook.org/

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.

Data Sources

Interview subjects were identified based on purposive sampling to represent a variety of institutions, obtain specific information related to an innovative program, and about issues facing the city. At the national level, interview were conducted with award program administrators and prominent public administration scholars. At the local level, they were conducted with past and present city mayors, city councilors, business interest, and civil society groups. Other respondents included heads of city departments responsible for conducting the programs, and NGO's. Ultimately, a total of 82 interviews were conducted (see Table 2). Secondary data was sought from the city's information and statistics office, government websites, local public libraries, and news outlets.

Table 2: Formal interviews conducted (by city and respondent)

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 respondent - 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

No.	Cities	City Govt. (Chief Executive)	City Govt. (Dept. Head)	City Council	Business Interest	Civil Society	Total per City
Count per respondent - Indonesian Cities		**8**	**11**	**5**	**7**	**14**	**45**
Total per respondent		**16**	**25**	**10**	**10**	**21**	**82**

Source: Author

Data Analysis

Relevant data (interview transcripts, field notes, news clippings, etc.) was recorded and coded using QDA Miner Lite, a qualitative data analysis software. Coding enabled the organization of various statements, observations, and events according to the sub-factors of information cost. After the data had been coded, case reports were written for each of the eight cities. The next step was to gauge the presence or absence of efficient information cost in each city by assigning 'Yes' and 'No' values to questions such as: "did the city government engage substantially in networking efforts with other cites?" The 'Yes' and 'No' values were assigned upon reviewing case reports and coded database. Admittedly, the author's judgments were used with reference to knowledge of the Philippine and Indonesian contexts. Finally, the 'Yes' and 'No' values from the three sub-categories were aggregated into the main explanatory variable: information costs.

5. Findings

This section provides a cross-case analysis of how the presence of efficient information costs took shape in both the innovative and typical cases. Here, having efficient information costs is described as an aggregate of three sub-factors, namely (1) access to ICT and media, (2) networking opportunities with other cities, and (3) opportunities to travel and be familiar with other cities. The extent to which each of the innovative and typical cities showed efficient information costs, is described next, one sub-factor at a time.

Access to ICT and media

Among the innovative cases, all four cities have had relatively good access[2] 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 City** in Indonesia hosts PT. Telkom's[3] regional headquarters and is a place where national and local media outlets thrived. PT. Telkom in 2014 was 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 City** was among the first cities in the Philippines to embark on large-scale government computerization and e-government programs (which won the Galing Pook award in 1996). They were also among the first to utilize ICT as a tool to improve governance (which won the Galing Pook award in 1995), and this has continued to this day through innovative uses of social media as in 'Naga SMILES to the World.' Naga's position as the hub of Bicol region helped ensure it had enough bandwidth to serve numerous universities, banks and international Business Process Outsourcing (BPO) companies. **Marikina City** is located in Metro Manila close to two large campuses (University of Philippines at Diliman and Ateneo de Manila), and experiences 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 (Estavillo 2006). Heads of city departments in Marikina actively used the Internet to search for best practices, references, and benchmarking. **Pekalongan City** is among the first of Indonesian cities to develop a Local Area Network connecting all city government offices, and similarly provide neighborhood community halls with internet connectivity (Burhan 2015). These examples seem to

[2] The term "good access" is used relative to other cities in Indonesia and the Philippines.
[3] Indonesia's largest and state-owned telecommunications service provider

highlight arguments on the importance of ICT on public innovation (Bekkers, Duivenboden, and Thaens 2006, Hale and Project 2011)

Among the typical cases, three out of four cities (all but Tanjungpinang) also had favorable access to ICT and the media, though arguably to a lesser extent than the innovative cases. **Samarinda City** is the capital of oil-rich East Kalimantan province, and hosts six state-owned and 23 private higher learning institutions. The city thrived on private sector support to develop ICT infrastructure, where WiFi points were installed throughout the city. Political leaders also have a social media presence, though outdated and used mainly during the campaign periods. **Dagupan City** is the main hub for media outlets in the Philippines' Ilocos region, where local and national chapters of television and radio stations, as well as print publications are based. The city has laid out relevant infrastructure to support the dense presence of media, universities, and BPO companies. In **Malabon City**, city leaders and officials also had good access to the Internet and media – being located in the National Capital Region, though largely after the development of the new, modern 11-storey city hall in 2007. The city's Digital Infrastructure Project was completed in 2012 and mostly used to improve tax collection purposes (PNA 2012). The only exception in the group was **Tanjungpinang City**, 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 needs. When the mayor visited Jembrana Regency in Bali (known for their e-government initiatives), she said such technology was a distant goal for the city because many people in Tanjungpinang still did not even have access to electricity.[4]

[4] Interview with former mayor, February 2015.

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, along the arguments of (Marsden et al. 2011, Campbell 2012, Considine, Lewis, and Alexander 2009). For example, leaders of the innovative cities were actively involved in horizontal inter-city networks at the national level (such as Indonesia's APEKSI and League of Cities of the Philippines [LCP]) and the international level (such as CityNet and United Cities and Local Governments [UCLG] Asia Pacific). Mayors were also involved in vertical networks and were well connected with provincial and national officials. **Marikina City** has been actively involved in the LCP, where the mayor (2010-2016) was secretary general, and the mayor before him was deputy secretary general. The city is also actively involved in Cities Alliance and CityNet, and mayors have had historically good access to national government figures, which helped the city to better communicate with line ministries when conducting 'top-down innovations'.[5] Similarly in **Balikpapan City**, mayors historically have been active in national and international city associations. Mayor Suparna was among the founders and the first vice chair of APEKSI when it was established in 2000. In 2014, Mayor Rizal sits on APEKSI's national executive board. Balikpapan is one among 10 Indonesian cities that are members of ICLEI (Local Governments for Sustainability), and one among 19 that are members of CityNet. In **Naga City**, aside from having the opportunity to engage in vertical and horizontal networks, city leaders also have had close access to a network of local activists and NGO figures that form local 'epistemic communities' (Haas 1992, Simmie 1997).[6] In **Pekalongan City**, the

[5] Interview with former city administrator, September 2014.
[6] Interview with mayor, former vice mayor, and heads of departments, September 2014.

mayor and heads of departments networked heavily with various central government research agencies, resulting in the city being much updated about the latest trends in national-level policies and pilot projects that the government was conducting.

Among the typical cases, two out of four cities, namely **Dagupan City** and **Malabon City** (both in the Philippines), also had plenty of networking opportunities. Mayors Belen Fernandez and Benjamin Lim of Dagupan as well as Mayors Tito Oreta and Antolin Oreta of Malabon were well connected with national-level officials from the Department of Interior and Local Governments, politicians, and large private companies who could help the city implement new ideas.[7] By contrast, city governments in Indonesia networked to a more limited extent. **Samarinda City** was also involved in networks, but limited to those at the national level. The city was not a member of any international city associations in 2014. Networks with national and provincial officials were also not as close as mayors had hoped, as shown by Samarinda's difficulty to complete several large projects that have been stalled for many years.[8] Similarly, **Tanjungpinang City** for the most part had minimal involvement in intercity networks, with the past mayor admitting not to play an active role in APEKSI.[9] Relationship with national and province governments were also limited. Despite being the provincial capital, Tanjungpinang leaders did not manage to increase networking opportunities with province and national leaders.

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

[7] Interviews with mayor and heads of department, December 2014.
[8] Interview with mayor, July 2014.
[9] Interview with former mayor, February 2015.

programs in other cities that could be referenced or replicated. In **Pekalongan City**, the mayor subscribed enthusiastically to the notion of imitating and innovating[10] and encouraged his key staffs to visit other cities, copy their programs, and set a target that their city has to be better in implementing such a program after two years of copying and 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). Mayor Bayani Fernando of **Marikina City** was known take photos, notes, and measurements from his travels and conduct brainstorming sessions with his staff once back at the office. A former city administrator recalled being chased by police officers in Hong Kong because they tried to lift the flood drain cover so they could measure its thickness. Leaders of Marikina also conducted learning fieldtrips ('picnics') to other cities, such as Subic Bay. Recently converted into a Freeport zone in 1992, the former U.S. military base was up to "American standards". Mayor Fernando took almost all his staff, including street cleaners, where he led the trip, delivered lectures, and showed everyone what he meant by "clean" and "orderly". This harks back to the argument that policy transfer is more likely to happen among geographically proximate places (Kern, Koll, and Schophaus 2007) as direct visits provide inspiration and reduce uncertainties (Rose 1993). In **Naga City**, mayors were well-traveled, both in the Philippines and abroad. They would often get sponsored invitations to present about Naga's innovative programs and hear about other cities' programs, too. Leaders of **Balikpapan City** have had plenty of opportunity to travel to other cities domestically or internationally. Most prominently, Singapore has been Balikpapan's main

[10] A popular Indonesian business term is 'ATM' (*Amati, Tiru, Modifikasi*) – which translates literally to Observe, Replicate, Modify.

reference due the fact that it has a small proportion of indigenous people, with most of its residents being migrants who came in search of better livelihood.[11]

Among the four typical cases, leaders from two cities, Dagupan and Samarinda, have been consistently familiar with good programs in other cities. Mayor Lim and Mayor Fernandez of **Dagupan City** were successful retail business owners and have traveled extensively, including to cities with successful public services or programs. Some of the cities in the Philippines that provided inspiration for Lim were San Fernando City in Pampanga (for its economic growth and efficiency of business processes), Marikina City in the National Capital Region (for cleanliness), Iloilo City in Western Visayas (for river management), and Davao City (for public order and security).[12] Leaders of **Samarinda City** actively sought models from other cities which they could emulate. Cities in Java, Indonesia, provided reference for development of new parks and green open spaces. Modeled after those in Surabaya, Yogyakarta, and Batu, respectively currently Samarinda has developed a Senior Citizens Park, a Smart Park, and two Lantern Gardens. Singapore was also a reference, but only to emulate the physical appearance of some 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 City** and **Tanjungpinang City** considered many successful programs from other cities as irrelevant due to perceived unique condition of their city, as well as lack of funding. Impressive projects from cities that were not comparable did not attract the mayors' attention.[13]

[11] Interview with past and present mayors, separately, July 2014
[12] Interview with vice mayor, December 2014
[13] Interview with Malabon mayor, December 2014; with Tanjungpinang mayor, February 2015

Synthesis

Table 3 shows that all four of the innovative cases had the presence of these three sub-factors. Meanwhile only one of the typical cases showed all three sub-factors of efficient information costs (Dagupan City). The other typical cases showed a lack of either one sub-factor (Malabon City and Samarinda City) or all three (Tanjungpinang City).

Table 3: Information Costs in 'Innovative' and 'Typical' Cases

Information Cost Sub-factors	**Innovative city governments**				*Innov. Case Count*	**Typical city governments**				*Typic. Case Count*
	Philippines		**Indonesia**			**Philippines**		**Indonesia**		
	Naga	Mari-kina	Peka-longan	Balik-papan		Dagu-pan	Mala-bon	Sama-rinda	Tanjung-pinang	
Access to ICT & Media	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 with other cities	Yes	Yes	Yes	Yes	*4/4*	Yes	No	Yes	No	*2/4*
City Count	*3/3*	*3/3*	*3/3*	*3/3*	***12/12***	*3/3*	*2/3*	*2/3*	*0/3*	***7/12***

Source: Author

Collectively, the innovative cases accumulated 12 affirmative counts ('Yes') out of a possible 12, while the typical cases collected seven. Although the difference in counts at the aggregate-level is quite notable, perhaps not all sub-factors play an equal role in explaining the difference between innovative and typical cities. Access to ICT may play a weaker role – as there is only one count difference among the innovative cities (4/4) and typical cities (3/4). Meanwhile, there is a difference of two counts (2/4) for both networking opportunities and travels and familiarity with other cities.

6. Conclusion

Through a cross-case comparison, this research has identified patterns of how information costs were present or absent in 'innovative' and 'typical' city governments of

Indonesia and the Philippines. I argue that there are some observations to suggest that having efficient information costs may be associated with innovativeness, or the likelihood of city governments conducting a larger number of policy transfers. All four innovative city governments (Naga and Marikina in the Philippines, and Balikpapan and Pekalongan in Indonesia) showed presence of efficient information costs. Meanwhile only one of the typical cases showed all three sub-factors of efficient information costs (Dagupan City).

Dagupan City was an unexpected observation, where the city ticked all three sub-factors related to efficient information costs, but was not 'innovative'. This case even seems to suggest that innovativeness cannot be explained only by having efficient information costs. A future research agenda would be to explore other aspects of transaction costs in these cities, namely the negotiation costs and enforcement 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.

This paper explored 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'. In doing so, the study drew insight from the theories of institutional analysis, especially those of transaction costs. Many factors that have been used to explain policy transfer and learning could be seen as 'transaction costs'. For example, 'awareness' (Bason 2010) could be identified as part of 'information cost'.

In light of arguments about the limited extent of institutional and political analysis in public management and policy studies literature, this research has attempted to expand the application of transaction cost analysis onto the latter. 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). It 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), and the relationship between an organization's mechanisms of governance (i.e., size, structure, and procedures) and 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.

The research also aims to contribute to the urban studies field by exploring urban governance in less-explored cities. Plenty of work have been conducted on cities of the developed world and on capital and large cities of the developing world. However, there is a dearth of knowledge about what is happening in the developing world's secondary and mid-sized cities. Although a mid-sized city does not accommodate as many residents compared to large or metropolitan ones, but the majority of cities fall under the medium-size category.

There are some limitations with this research. 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, research along this topic would have benefited from the availability 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, social capital, and public management. However, lack of formal secondary data contributed to the difficulties of conducting quantitative studies with cities as unit of analysis.

The proposed transaction cost framework to understand public innovation is admittedly still in an early stage of development. To better understand how consistently it can provide the explanations, it needs to be applied in other settings. As more quantitative data becomes available, the theory should be tested in large-n settings. It would be also 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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